Occidental Petroleum Corporation 1967 Annual Report

The photograph on our cover shows Occidental Petroleum Corporation's new pipeline in Libya during final stages of construction. Stretching 135 miles across the vast Libyan desert, the pipeline is now completed and delivering oil from the company's Idris Field wells to the port of Zueitina from where the crude is shipped daily in tankers to market.

Occidental Petroleum Corporation

1967 Annual Report

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Financial Highlights

	1967[1]	1966[1]
Gross revenues	$825,740,000	$802,004,000
Cash flow	$ 70,288,000	$ 49,381,000
Net income	$ 45,548,000	$ 30,374,000
Preferred stock dividend requirements (pro forma)	$ 5,975,000	$ 5,937,000
Net income applicable to Common Shares	$ 39,573,000	$ 24,437,000
Net income per Common Share[2]		
Before giving effect to 3-for-1 stock split	$ 3.03	$ 2.13
After giving effect to 3-for-1 stock split	$ 1.01	$ 0.71
Total assets at year end	$779,132,000	$556,868,000
Additions to property, plant and equipment	$124,067,000	$113,164,000
Stockholders' equity	$409,120,000	$210,576,000
Dividends Paid Per Share:		
Cash[3]:		
Before giving effect to 3-for-1 stock split	$ .80	$ .70
After giving effect to 3-for-1 stock split	$ .26⅔	$ .23⅓
Stock[4]:	2%	3%
Cash equivalent of dividends:		
Before giving effect to 3-for-1 stock split	$ 2.76	$ 2.11
After giving effect to 3-for-1 stock split	$ .92	$ .70
Average number of shares outstanding during year:		
Before giving effect to 3-for-1 stock split	13,112,000	11,424,000
After giving effect to 3-for-1 stock split	39,336,000	34,272,000
Number of Common Shareholders	87,000	58,000
Number of employees	11,500	3,900

[1] Restated on basis of poolings of interests in connection with acquisitions.

[2] Based on average number of shares outstanding after giving retroactive effect to
(a) 3% stock dividend declared in December 1966 and issued in January 1967, and
(b) the issuance of capital stock in connection with acquisitions in 1967 and 1968 accounted for as poolings of interests.

[3] After giving effect to the 3-for-1 stock split, the present annual dividend rate is 40 cents per share payable quarterly.

[4] On January 30, 1968, a 2% stock dividend was declared. The cash equivalent of that stock dividend and the 3% stock dividend paid in February 1967 is based on the closing price on the New York Stock Exchange on the date the 2% dividend was declared (payable April 30), $97¾ and $47⅛ on February 12, 1967, the date the 3% stock dividend was paid.

Corporate Highlights

The principal corporate developments discussed in this report are:

All-Time Record Revenues and Net Income

All-time record for revenues and income. Total earnings were $45,548,000, an increase of 50 per cent over the 1966 total of $30,374,000. Gross revenues in 1967 were $825,740,000, up 3 per cent over the 1966 total of $802,004,000. Net income per common share before giving effect to 3-for-1 split, $3.03 per share—up 42 per cent over the comparable figure of $2.13 per share for 1966. The average number of common shares outstanding in 1967 before the split was 13,112,000 compared to 11,424,000 in 1966. Post-split earnings in 1967 were $1.01 per common share, as against 71¢ per share in 1966. Of the $1.01 post-split earnings, 68¢ was from operating income and 33¢ from extraordinary items. In 1966, comparable figures were 55¢ from operating income and 16¢ from extraordinary items. These earnings are after provision for preferred dividend requirements on the split shares of 15¢ per share in 1967 and 17¢ per share in 1966.

Dividend Rate Increased

Cash dividend rates continue to rise, 50¢ per share, 1963 and 1964; 60¢, 1965; 70¢, 1966; 80¢, 1967, and $1.20 per share rate for 1968 (equivalent to 40¢ per share after giving effect to 3-for-1 split). Stock dividends paid in each of last six years.

Record Capital Expenditure

Record investment in new property, plant and equipment; $124,067,000 in 1967 versus $113,164,000 in 1966.

Major Billion Barrel Oil Discoveries in Libya

Three major new oil fields discovered on Concession 103 in Libya. Idris-A Field discovery well, A1-103, tested 43,000 barrels per day. Seven additional wells were completed in this field, of which first four wells officially tested at combined rate of 200,000 barrels per day. Idris-C Field discovery well, C1-103, tested at 17,600 barrels per day. Idris-D Field discovery well, D1-103, officially tested 74,867 barrels per day, largest flow rate ever recorded in Libya.

Eight Augila Wells Test 97,500 B/D

In the Augila Field, discovered in December, 1966, on Concession 102 in Libya, eight development wells tested for an aggregate rate of 97,500 barrels per day of crude oil, with sulphur less than ¼ of one per cent.

Libyan Reserves Exceed Three Billion Barrels

Proven reserves in Libyan fields as of November, 1967, estimated by the independent engineering firm, De Golyer & MacNaughton, to be 2,688,000,000 barrels net to Occidental, with total producible reserves in excess of three billion barrels on the basis of only 20 per cent development of fields presently discovered.

Libyan Crude Successfully Marketed as Pipeline Completed

A 40-inch pipeline system extending 135 miles from the Idris Field to a new port facility built at Zueitina on the Mediterranean coast, with first phase completed in February, and shipments of oil by tanker commenced to European customers. A 24-inch, 40-mile pipeline from Idris Field to Augila Field is now under construction. Production in February, 1968, started at approximately 200,000 barrels per day. System estimated to be capable of moving one million barrels per day at beginning of 1969. Marketing of Libyan oil commenced under contract with Signal Oil and Gas Company, with more than two billion barrels sold on long-term contracts from three to ten years at favorable prices.

Signal's European Refining and Marketing Complex Purchased

Occidental exercised its option to purchase Signal's European refining and marketing complex for approximately $100 million, payable 10 per cent cash, 40 per cent in four annual installments of 10 per cent each, and 50 per cent in a new Occidental convertible preferred stock.

Domestic Oil Production Up

Domestic oil production increased 75 per cent over 1966. As in 1966, the principal increase was attributable to East Beverly Hills and Sawtelle oil fields in Los Angeles Basin. Eleven wells completed in East Beverly Hills, placing total number of producing wells at 17. Average daily production was 9,200 barrels of oil and 8,700,000 cubic feet of gas, of which Occidental has 50.7 per cent after royalty. At Sawtelle Field, four producing wells completed in 1967, making a total of nine wells at year end averaging 5,063 barrels and 3,800,000 cubic feet of gas per day. Occidental's share is 69.5 per cent after royalty.

$19.5 Million Expended for Exploration in 1967

Approximately $19.5 million expended for oil and gas exploration in 1967 compared with $14.8 million in 1966.

Five New Discoveries in United States and Canada

New discoveries were as follows: Carancahua Creek in Jackson County, Texas (oil); East McFaddin Beach, offshore Jefferson County, Texas (oil); Shipshoal Block 58, offshore Louisiana joint venture, (oil); joint venture with Jefferson Lake Petrochemicals, South Okotoks (gas); Cheddarville, Central Alberta (gas).

Combined Permian-McWood Operation Produces Increased Earnings

First year of combined operation of The Permian Corporation and newly-acquired McWood Corporation in blending, marketing and refining oil. Net earnings from operations in 1967 after provision for federal income tax were 37 per cent higher than 1966; however, total income was considerably greater because of Occidental's tax shelter. Volume crude oil handled by Permian-McWood was 161,347,000 barrels compared with 106,392,000 barrels in 1966 for Permian alone, an increase of 52 per cent.

Occidental Acquires Third Largest Coal Company

Acquisition of Island Creek Coal Company makes Occidental nation's third largest producer of coal. Island Creek's 1967 profits after tax of approximately $9 million expected to increase with earnings from five new mines under construction.

Fertilizer Division Consolidated In New Houston Building

Divisional fertilizer headquarters moved to Occidental's new building in Houston with consolidation of all agricultural activities under A. P. Gates providing substantial economies.

Phosphate Chemical Complex and Mine Production Increased

Suwannee River chemical complex in first year shows substantial increase in production. Doubling of Suwannee River phosphate mine to 3 million tons completed.

Record Sulphur Sales and Earnings

Record sales and earnings for Jefferson Lake Sulphur division and subsidiary, Jefferson Lake Petrochemicals of Canada Ltd.

New Sulphur Mine Starts Production

Newly-discovered Lake Hermitage Dome sulphur mine in production on schedule at approximately design capacity.

Contract Signed For New Saudi Arabia Sulphur Plant

Occidental's feasibility study approved for Saudi Arabia $20 million sulphur recovery plant. Joint venture contract with Petromin signed. Construction to start last half of 1968 with initial sulphur delivery by early 1970.

New President of Minerals Division Named

Dr. Paul Bailly joins Occidental as president of Occidental's mineral division: Dr. Bailly held a similar position with Bear Creek Mining Co., the domestic exploratory subsidiary of Kennecott Copper Company, where he served for the past 17 years. Stepped-up domestic and foreign exploration activities planned.

Garrett Provides Internal Growth, Profit Potential

First full year of Garrett Research & Development Company, Inc., as wholly-owned subsidiary of Occidental. Garrett Research, under its president, Dr. Donald E. Garrett, should provide opportunities for internal growth and add considerably to Occidental's profit potential.

Four New Hotels Being Built in Morocco

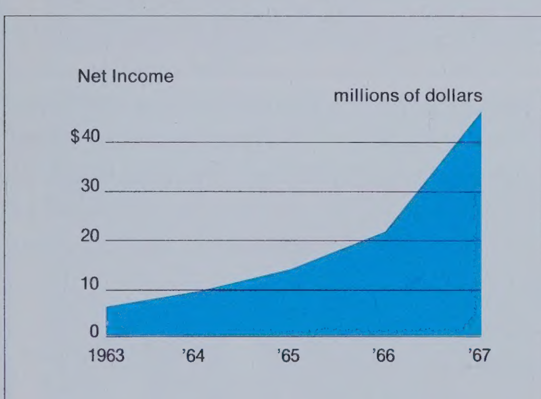
Joint venture between Holiday Inns and Occidental building four new hotels in Morocco on schedule. Additional hotels planned for Tunis, Tripoli and Monaco.

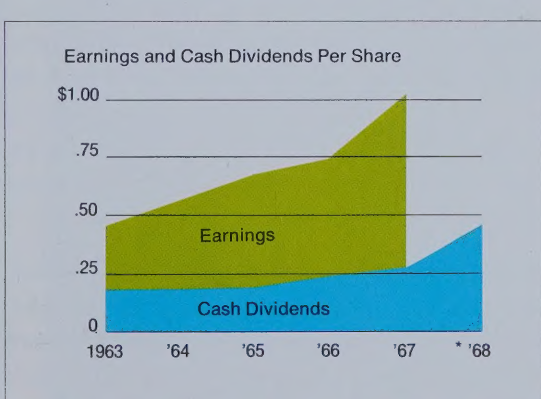
Conversion of Debentures Increases Equity

Conversion of $61,168,000 5¼% subordinated convertible debentures in only one year after originally issued in 1966. Successful issuance of $100 million 4¾% convertible subordinated debentures and conversion five months later, increasing equity while simultaneously reducing debt.

To the shareholders:

Dr. Armand Hammer, President and Chairman of the Board





* The Board of Directors increased annual cash dividend rate to be paid on common shares to $0.40 (post-split shares) in 1968, a 50% increase over 1967 rate.

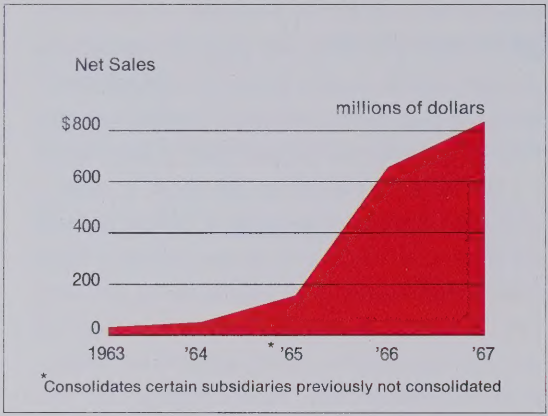
Nineteen sixty-seven marked the 48th year of your company's existence and the tenth full year of operations since its reorganization under present management. Reflecting over the past twelve months, it seems nearly incredible that the achievements recorded in this report could have been accomplished in so short a time — three new oil fields in Libya averaging a billion barrels each; entry into the coal industry as the nation's third largest producer; increasing total assets by 75 per cent over the $445 million recorded on the balance sheet in last year's annual report while, at the same time, reducing over-all debt substantially. Nevertheless, all this and more has become history and, in keeping with our long-standing policy of immediate disclosure, has been reported to you as it happened.

While the preponderance of the business and financial community is congratulatory about our success, the reporting of these facts by your company has, surprisingly to us, resulted in statements from some sources casting doubts as to the company's financial accounting policies and implying that it is somehow wrong to emphasize the positive. The company's accounting practices are in accordance with generally accepted accounting principles as reported upon and approved by our independent public accountants, Arthur Andersen & Co., one of the nation's largest firms in its field. So long as Occidental continues to achieve successes, your management will continue to report them — and, if the past is any criteria of the future, we hope this will be for a long time to come.

Consolidated income for 1967 amounted to $45,548,000 as compared with $30,374,000 for the previous year, an increase of 50 per cent, while consolidated revenues were $825,740,000, compared with $802,004,000, an increase of 3 per cent.

Per share earnings before giving effect to the 3-for-1 stock split were $3.03 on 13,112,000 average number of common shares outstanding during the year compared with $2.13 on 11,424,000 average shares for 1966, an increase of 42 per cent, with 15 per cent more shares outstanding. Included were extraordinary items of 99 cents per share in 1967 compared with 48 cents in 1966. After giving effect to the split, the earnings were $1.01 per share for 1967 and 71 cents per share for 1966. Consolidated revenues and earnings have been restated on a pooling of interests basis to include those of the recently-acquired Island Creek Coal Company.

These highly satisfactory results were achieved before any production commenced in Libya or from the newly-discovered sulphur mine at Lake Hermitage, and with-



out any income from the new Island Creek Coal Company mines under construction.

Again, the value of Occidental's concentration on natural resources is illustrated by the increased contributions to earnings by the domestic crude oil production, the Permian-McWood merged crude oil operations, and the Jefferson Lake Sulphur division, which more than offset the disappointing results of the homebuilding and fertilizer divisions. The latter was affected by unfavorable weather conditions throughout the entire United States, while the reduction in homebuilding in Southern California was largely due to the unavailability of mortgage money at favorable rates. It is expected that both these situations will improve during 1968 and beyond.

Cash dividends were paid in 1967 at the annual rate of 80 cents per share, an increase of 10 cents per share over the 1966 rate; and were again increased to an annual rate of $1.20 per share commencing January 1, 1968, or 40 cents per share after the 3-for-1 stock split. The company's stock dividend policy, begun in 1962, was continued with a 3 per cent stock dividend paid in February, 1967, and a 2 per cent stock dividend to be paid in April, 1968.

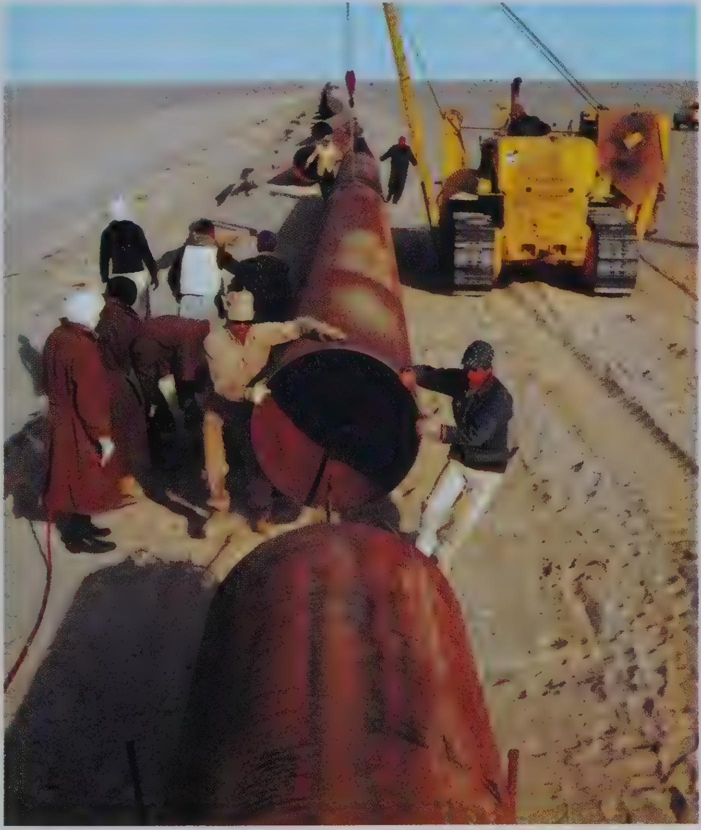
The largest single area of expansion in 1967 consisted of our investment in Libya. Occidental's foreign operations in 1968 are expected to result in accrual of foreign taxes substantially greater than the amount presently required as credit against United States taxes on foreign income. This excess is available for further tax shelter purposes and your company is seeking means to utilize such shelter.

Oil and Gas Division

During 1967, Occidental continued its outstanding success in exploration for and production of oil and gas. In Libya's Sirte Basin, your company discovered three major new oil fields on Concession 103, continued development of the Augila Field on Concession 102, and completed the first phase in the construction of a pipeline system designed to ultimately deliver in excess of one million barrels per day of crude oil into tankers.

A new seaport was constructed at Zueitina on the Mediterranean coast by the Bechtel Corporation in conjunction with your company's engineers, and oil shipments to European customers has commenced. In North America, the company's average daily production of oil, condensate and natural gas liquids increased 74 per cent over 1966 production, with the principal

One of several ditching machines used to cut 135-mile trench across desert in Libya as Occidental builds pipeline to deliver oil from its wells



Lining up 80-foot section of pipe in preparation for welding

Pipeline reaches Mediterranean to be pulled to sea berth

increases being attributable to development of fields in the Los Angeles Basin of California.

DEVELOPMENTS IN LIBYA

On March 29, 1966, your company's wholly-owned subsidiary, Occidental of Libya, Inc. (OXYLIBYA), entered into concession agreements with the Kingdom of Libya covering 610-square-mile Concession 102 and 728-square-mile Concession 103. In December, eight months later, OXYLIBYA had discovered a major oil field, the Gialo-Augila (Augila Field), and commenced its development.

During 1967, OXYLIBYA recorded the following significant events:

- Discovered the Idris-A Field and completed eight wells.
- Discovered the Idris-C Field.
- Discovered the Idris-D Field with the largest flow rate on record in Libya (D1-103, 74,867 bbls. per day).
- Drilled nine development wells in the Augila Field.
- Entered into firm sales agreements for marketing of more than two billion barrels of OXYLIBYA's oil.
- Completed construction of the first phase of the largest pipeline system in Libya to ultimately transport more than one million barrels of crude per day.

By February of this year, less than two years after the signing of the concession agreements and within nine months after the discovery well was completed on Concession 103, oil was flowing through this pipeline from the Idris Field at the rate of approximately 200,000 barrels per day to Occidental's new seaport on the coast of Libya, and shipments to Europe via tanker were under way.

On Concession 102 in 1967, a total of eight developmental wells were completed at depths between 8,400 and 9,400 feet and were tested for an aggregate rate of 97,500 barrels per day of crude oil with a sulphur content of less than ¼ of one per cent. A ninth well was awaiting completion and testing. The total developed area of the Augila Field is approximately 25 square miles.

On Concession 103, seismic field work commenced in November, 1966, and exploratory drilling started in March, 1967. In May, 1967, a new oil field was discovered on the first well drilled on the concession with the completion of A1-103 at a rate in excess of 43,000 barrels per day with less than ¼ of one per cent sulphur content. The oil flowed from a reefal limestone of Paleocene age topped at 9,417 feet and with 959 feet of porous oil zone.

His Majesty King Idris 1 graciously permitted the new field to be named "Idris" in his honor. Due to subsequent discoveries in the area, the field is now officially known as the Idris-A Field. By the end of 1967, seven development wells had been drilled in the field and three more had been completed by mid-February, 1968, bringing the total field wells to eleven. The aggregate production rate of the four wells officially tested to date is 200,000 barrels per day.

The wells which were not tested during drilling are being tested into the pipeline, saving considerable time and expense plus the oil produced during the test, which would have otherwise been wasted.

A second new field on Concession 103 was discovered in October, 1967, when the C1-103, located five miles east of the Idris-A Field, was completed from the interval 9,545 to 9,665 feet in a Paleocene limestone reef. The well flowed at a stabilized rate of 17,600 barrels per day on an official completion test. The field has been formally designated the Idris-C Field.

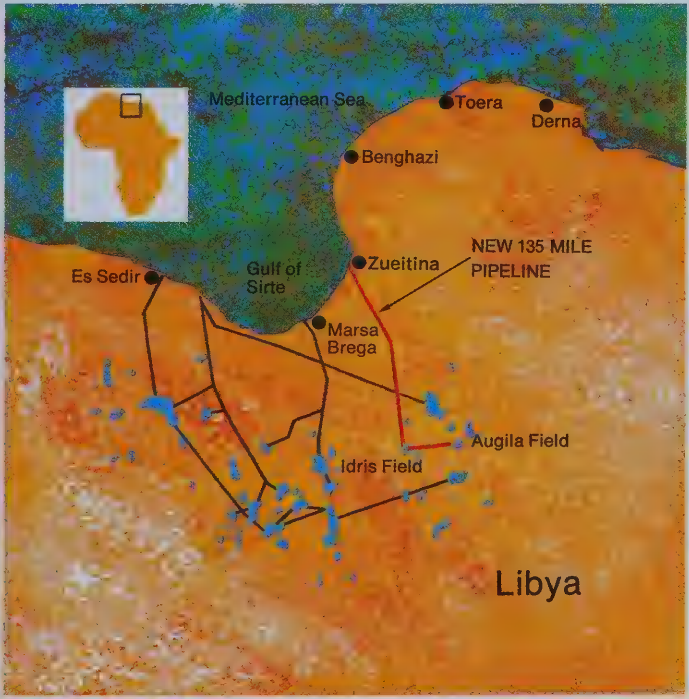
A third new field discovery in Concession 103 also occurred in October, 1967, when the D1-103, located 15 miles southeast of the Idris-A Field, was officially tested at a stabilized completion rate of 74,867 barrels per day. This was the largest flow rate ever recorded in Libya. The well produced from a Paleocene limestone reef open in the interval 8,949 to 9,680 feet. Development of this field, named the Idris-D Field, will follow that of the Idris-A Field, and the Idris-C Field will be developed as required by oil sales commitments.

It is anticipated that four rigs will be continuously active in development of the oil fields on Concession 103, and that three rigs will be drilling for new reefs. There are nine of these exploratory prospects which have not yet been drilled.

As of November, 1967, it was estimated by the internationally-known engineering firm of De Golyer & MacNaughton that the four fields discovered to date by Occidental in Libya will yield recoverable reserves of 2,688,000,000 barrels net to your company's account after royalty. Total producible reserves are estimated to be in excess of three billion barrels on the basis of only 20 per cent development of presently-discovered fields.

In any discussion of your company's Libyan reserves and production potential, it should be noted that all of our discoveries to date have resulted from seismic surveys using the most modern field and interpretative techniques. Our field work is continuing, and several definite structures have been delineated which appear

Largest well in Libya is Occidental's D1-103 discovery tested at rate of 74,867 barrels of oil per day



Map shows pipeline route from company's Libyan wells to tanker terminal

First tanker loading from pipeline as crewmen open oil valves

to have the same characteristics as the reefs already discovered. Only relatively small portions of our concessions have been tested by drilling to date, and in the opinion of your company's geological staff, we have every reason to expect that our reserves will increase substantially through new discoveries as exploratory drilling progresses on both concessions.

Further, the extremely high porosities and permeabilities present in our Idris wells, coupled with producing sections up to one thousand feet in thickness, ensure that these wells will sustain high producing rates over a long productive life.

Upon discovering the Idris-A Field in May, 1967, it became apparent that your company should consider the building of a pipeline to deliver its crude to a port on the Mediterranean coast. Feasibility studies were immediately initiated. The decision to construct a pipeline system was made in mid-June, 1967, concurrent with the delivery of a summary report prepared by the Bechtel Corporation for a system capable of handling in excess of a million barrels per day. Topographic and hydrographic surveys were commenced in July, 1967, and field construction work began in August, 1967.

The new pipeline system connects the field areas to a terminal and port facility at Zueitina on the Mediterranean coast. A 135-mile, 40-inch pipeline extends from the Idris-A Field to the terminal. A 24-inch pipeline will extend 40 miles to connect the Augila Field to the 40-inch line near the Idris-A Field.

The pipeline system is being built in three phases. Upon completion of Phase I in April, 1968, it will be able to move 300,000 barrels per day and, in addition to the 40-inch pipeline discussed before, will include gathering, separating and metering facilities in the field; terminal facilities at Zueitina, including one 315,000 and four 560,000-barrel floating roof tanks; marine facilities capable of accommodating large tankers which transport as many as one million barrels of oil; housing and support facilities for operating personnel; a private radio system, and supervisory control systems.

Phase II, which is expected to be completed in June, 1968, will expand this system to a throughput capacity of 550,000 barrels per day. Phase III, which will expand the system to a throughput in excess of one million barrels per day, is expected to be completed in the first quarter of 1969. The system capacity will be increased in December, 1968, between the completion of Phase II and Phase III to an intermediate rate of 800,000 barrels per day.

Oil commenced flowing into the pipeline on February 5, 1968, and arrived at the terminal on February 16, 1968. Approximately one million barrels of oil were required to fill the pipeline. Tanker loading commenced on February 26, 1968. The addition of two 1,100-horsepower mainline pumps will increase the initial handling capacity to 300,000 barrels per day to complete the first phase. The planned capacity of one million barrels per day will require two 10,000-horsepower pumping stations on the line.

As discussed later in this report, Signal Oil and Gas Company, under its marketing contracts with your company, concluded the sale of approximately two billion barrels of our Libyan crude, and additional contracts are now being negotiated. While most of the oil sold thus far has been destined for European markets, with the ever-growing problem of air pollution facing our cities in America, your management believes that the time will not be far distant when Occidental's low-sulphur Libyan crude will go to the United States market for fuel, and will be a major contributing factor to the reduction of air pollution.

Our engineers estimate there are huge reserves of high BTU gas rich in condensate available for production in the Idris Field, equivalent to about one Mcf (1,000 cubic feet) of gas for each barrel of oil produced. Your company has ordered a feasibility study from the Bechtel Corporation with a view to building a pipeline that will transport this gas to Zueitina and installing gas liquefication facilities there from which the liquid gas could be shipped in specially-designed tankers to European markets. The potential revenues could add significantly to future earnings.

Occidental has been asked by the Libyan government to provide a solution to the acute water shortage in the city of Agedabia, which is located close to our Zueitina terminal. We have a desalination project in progress which Occidental's subsidiary, Garrett Research and Development Company, Inc., feels confident will solve this problem. Occidental is happy to be able to help in a matter so vital to the welfare of the Libyan people in that area.

Under the terms of the concession agreement, which provides that 5 per cent of the pretax net profits be used to develop Libya's agricultural economy, OXY-LIBYA is now drilling water wells near the Kufra Oasis in southern Libya in an attempt to locate a source of suitable water in the large quantities demanded by modern extensive agricultural projects. At this writing, it appears that Occidental's efforts are about to be crowned with success. A large supply of fresh water apparently has been discovered with the drilling of the first well.

Winter view of PETROCHEM's Peace River Plant in British Columbia, which manufactures sulphur for shipment to domestic and foreign markets

NEGOTIATIONS WITH SIGNAL OIL AND GAS COMPANY

In August, 1967, your company and Signal Oil and Gas Company entered into agreements covering a ten-year supply of Libyan crude oil to be sold to Signal for use in its foreign refining and marketing operations. In addition, Signal was given an exclusive sales agency contract for the sale of your company's Libyan oil beyond Signal's requirements. This meant that Occidental had the benefit of Signal's well-established organization, which had many years experience in world-wide marketing with extensive facilities in Europe, including tankers, terminals, storage tanks, refineries and service stations.

By the middle of November, Signal had announced that it had already entered into sales contracts for Occidental's Libyan crude in excess of one billion barrels over and above the 800 million barrels which Signal needed for its own use. Later, Signal was able to make additional substantial sales. These contracts are for delivery for periods ranging from three to ten years, and Signal was able to make these sales without cutting prices.

On January 30, 1968, Signal and Occidental announced they had reached an agreement in principle for a proposed merger of the two companies. On February 20, 1968, both companies decided to call off the merger negotiations in view of a precipitous decline in stock market prices. The directors of Occidental at the same time decided to exercise an option acquired in August, 1967, to purchase the European operations of Signal, including all facilities, refineries, tankers, terminals, storage tanks and service stations. The purchase price was approximately $100 million, payable 10 per cent cash, 50 per cent in a new series of $4.00 preferred stock convertible at approximately $35.00 per share (post-split), and the balance in a promissory note payable in four equal annual installments.

By exercising this option your company expects, in addition to realizing a return of approximately 20 per cent from operation of the European facilities, to substantially improve earnings from Libya through economies developed by direct control of crude oil marketing.

Signal's European complex consists of some 25 companies active in practically all countries of western Europe. Total sales of oil products in 1967 averaged about 150,000 barrels per day and sales of refined products reached 40,606,000 barrels. Marketing activities were conducted in the United Kingdom under the VIP brand with volumes ranking among the largest of the independent distributors. In Belgium, retail marketing under the same VIP brand was initiated in 1965 and has received very encouraging public acceptance. In West Germany, products are marketed under the Varol and Kirol brands in the main consumption areas of the country.

In all these countries as well as throughout Europe products are sold to wholesalers and industrial consumers in large quantities. Asphalt sales have enjoyed a very good market position, reaching a total of 3,048,000 barrels in 1967. The availability of products manufactured at Antwerp (Belgium), Ostermoor (northern Germany) and Essen (Ruhr area) gives considerable flexibility in the economic supply of requirements to the Benelux countries, West Germany and Switzerland.

These sales activities are backed up by marketing storage capacities totaling 3,500,000 barrels to which two new modern fully-automated depots are being added in Belgium. In addition, well located refineries and an efficient and competitive fleet of ocean-going vessels make a major contribution to the overall economics of the complex.

In 1967, crude oil processed amounted to 74,500 barrels per day, an increase of 13 per cent over the 1966 daily rate. Refining activities at the company's plants were conducted in Belgium at the Raffinerie Belge Des Petroles (RBP) in Antwerp. This 50,000 barrels-per-day capacity modern refinery is located by deep water in the Antwerp Harbor. The plant covers approximately 80 acres of land and the main processing units consist of atmospheric and vacuum crude distillation units, catalytic reforming unit for the production of high-octane gasolines, a catalytic desulphurization unit and gas recovery facilities for the production of liquid petroleum gas (LPG).

The refinery produces a full range of petroleum products including propane, butane, special naphthas, gasolines, jet fuels, heating oils, fuel oils, asphalt and asphalt specialties. The storage capacity available at the refinery amounts to four million barrels.

In order to keep pace with the rapidly-growing demand for petroleum products, RBP has currently under way a $16 million expansion program which will increase the refinery's capacity to 85,000 barrels per day and bring its storage capacity to more than 5.5 million barrels.

In West Germany, the Kleinholz refinery, located on the Rhein Herne Canal in the heart of the heavily-industrialized Ruhr area, has a capacity of 15,000 barrels per day. The primary processing equipment includes atmospheric and vacuum distillation, product treating and asphalt oxidation facilities. This plant produces gaso-

Modern refinery at Antwerp Harbor in Belgium, now owned by Occidental, is one of Europe's important producers of high-octane gasoline

Efficient service is offered at company's chain of up-to-date filling stations in Europe, including this busy and attractive facility in England

lines, heating oils, fuel oils and a wide range of industrial asphalts and asphalt specialties. The plant has one million barrels of storage capacity.

The refinery of Mawag has a capacity of 8,000 barrels per day and is located at the junction of the Kiel Canal and the Elbe River at Ostermoor, West Germany, approximately 60 miles Northwest of Hamburg. This plant has primary processing equipment consisting of crude distillation, asphalt oxidation and special equipment for the production and packaging of asphalt specialties. It has a storage capacity of approximately 500,000 barrels.

Shipping capacities totaling approximately 500,000 deadweight tons are available to meet ocean transportation requirements. This consists of three fully-owned modern vessels, including one ore and oil carrier, totaling 200,000 tons; four chartered vessels with charters up to 1972, which account for 140,000 tons, and two ore and oil vessels under charters extending to 1974 and 1977, representing 167,000 tons.

NORTH AMERICAN OIL AND GAS PRODUCTION

In the United States and Canada during 1967, your company and its subsidiary, Jefferson Lake Petrochemicals of Canada Ltd. (PETROCHEM) participated in the drilling of 107 wells (equivalent to 48.6 wells net to Occidental's account, one net well being all the working interest in one well) and 27 were completed as oil producers, 21 as gas producers, and 59 were dry holes. Sixty of the wells were classified as exploratory. Five discoveries resulted from their drilling, including a new shallow pool on the East Beverly Hills Field in the Los Angeles Basin; two new oil fields in offshore and onshore Texas, and two sour gas discoveries in Alberta, Canada.

California

Occidental's oil production in California increased 103 per cent over 1966. This increase was directly related to development of the East Beverly Hills and Sawtelle fields in the Los Angeles Basin, where development is still continuing.

In the East Beverly Hills Field, Occidental completed ten wells during 1967, and one additional well has been completed since year-end, bringing the total number of producing wells to seventeen. Production during the fourth quarter of 1967 averaged 9,200 barrels of oil and 8,700,000 cubic feet of gas per day, of which your company's share is approximately 50.7 per cent after royalty.

Effective October 1, 1967, the average price of our East Beverly Hills crude oil was increased 9.5 cents per barrel. The production rate is being increased with the help of new gas compression equipment which became operative in early March. The compressor and other new production equipment are installed in an attractively landscaped building and yard adjacent to the site of the original production facilities.

A new shallow oil pool of Pliocene age was discovered with the completion of "West Pico" 7 in January, 1967, at depths between 4,738 and 5,208 feet. A total of three wells have now been completed in this pool. A major deeper pool, lying approximately 300 feet below the base of our main Miocene producing zone, was confirmed by drill stem tests in "West Pico" 11, which flowed gas at rates up to 4,890,000 cubic feet per day accompanied by condensate at rates up to 125 barrels per day. A total of 508 net feet of productive deep zone was logged in this well. This zone is expected to be produced now that the new production facilities described above have been installed.

At the Sawtelle Field, which is located on federal property, four producing oil wells were completed during 1967. A tenth successive well was completed March 6, 1968, and the 11th well is now drilling. By year end, production from the field had reached 5,500 barrels of oil and 5,129,000 cubic feet of gas per day. Your company's share of this production is 69.5 per cent after royalties. In October, 1967, Sawtelle crude commenced flowing through our newly-constructed pipeline, which increased our selling price by 20 cents per barrel. The City of Los Angeles is currently processing your company's application for the formation of four drilling districts covering 246 acres within the city. When approved, the company will directionally drill into the city from its drillsite located adjacent to the San Diego Freeway just 1,200 yards from your company's executive headquarters in West Los Angeles.

In the Sacramento Valley of California, Occidental participated in the drilling of development wells in the McMullin Ranch and Dutch Slough gas fields, Brentwood oil and gas field and the River Break gas field. During the year, development drilling continued on our fields in the San Joaquin and Santa Maria Basins. During 1968, we expect to carry on an active exploratory program in a number of areas in California, including several prospects in the prolific Los Angeles Basin.

Rocky Mountain States

During 1967, Occidental participated in the completion of three oil wells in the Wellington oil field, Larimer County, Colorado, where it now owns 50 per cent of the working interest in four wells. At December 31, 1967, your company had leases on approximately 156,000

Attractive new building in urban West Los Angeles houses additional production facilities installed to handle increasing flow from Occidental wells

Derrick in Sawtelle Field near company's corporate headquarters

Roughnecks at work on rotary floor making up drill pipe

acres in the Rocky Mountain states of Arizona, Colorado, Montana, Nebraska, New Mexico, North Dakota, Utah and Wyoming. Exploratory drilling is slated for Utah and Montana, and it is anticipated that additional drilling on or near your company's land blocks will be encouraged through a continuing farmout policy during 1968.

Texas and Louisiana Onshore

Activities in onshore Texas and Louisiana were primarily dedicated to the location and acquisition of oil and gas prospects. One of the geologic prospects on which land was acquired during 1967 was completed in March, 1968, as a new field discovery. The prospect is known as Carancahua Creek in Jackson County, Texas, located midway between Corpus Christi and Houston. The dual-zone discovery well, "Allen L. Burditt 1," produced on a completion test at the combined rates of 489 barrels of oil and 640,000 cubic feet of gas per day from two Lower Frio sands with bottom perforations at 9,699 feet.

Occidental now owns 100 per cent of the working interest in approximately 1,700 acres covering the entire prospective structure, and plans to drill additional field development wells during 1968. The wells will be dually completed whenever feasible with combined initial production rates under the Texas discovery allowable system of 400 barrels a day per well.

Texas and Louisiana Offshore

In the Texas offshore during 1967, Occidental discovered a new oil field with the completion of its "State of Texas Tract 66" S-1 at East McFaddin Beach, offshore Jefferson County, Texas, as a dual oil and gas condensate discovery. In completion tests, the well produced at daily rates of 218 barrels of oil, 3,200,000 cubic feet of gas and 48 barrels of condensate.

In mid-June, 1966, Occidental initiated a joint venture for evaluating geophysical data and conducting seismic work to define a number of prospects in the Gulf of Mexico offshore from Texas. Your company holds 25 per cent of the working interest in the venture. The group expects to acquire substantial acreage in offshore Texas.

In offshore Louisiana, Occidental owns 14.25 per cent interest in a group known as the Independent Offshore Venture with Southern Natural Gas Company as operator. The group completed one gas-condensate discovery well on Shipshoal Block 58, one dual zone oil well on Shipshoal Block 63, which tested 522 barrels per day from both zones, and acquired an interest in a shut-in gas well on Shipshoal Block 186. Additional exploratory work is continuing on various blocks of the joint venture acreage and it is anticipated that substantial production will accrue to the interest of Occidental as a result of this venture.

ACTIVITIES IN CANADA

Jefferson Lake Petrochemicals (PETROCHEM) as operator of the Calgary gas field completed 12 gas wells during 1967 in the continued expansion and development of this major sour gas field. In addition, processing facilities at the Petrogas plant were expanded under PETROCHEM operatorship so that at year-end, the field was delivering a contract maximum of 196 million cubic feet per day of pipeline gas sold under contracts with Trans-Canada and Westcoast Transmission, along with 1,900 long tons of elemental sulphur and 4,000 barrels of gas liquids per day.

The joint venture exploration program formed between your company and PETROCHEM during 1966 carried on extensive operations during 1967 under a $6 million 50-50 budget arrangement. Land holdings in Canada were expanded to 3,866,963 gross acres at December 31, 1967, compared to 2,137,499 acres a year earlier. Reconnaissance gravity and seismic work was intensified throughout the year to commence exploratory evaluation of this acreage.

Although the OXY-PETROCHEM acreage is generally in early stages of exploratory evaluation, two discoveries resulted from drilling during 1967. The exploratory sour gas wildcat "Jeff Lake-Oxy" 2-21 in the South Okotoks prospect was completed from the Devonian Crossfield formation and tested at a stabilized rate of 3 million cubic feet of gas, with an associated recovery of 30 tons of elemental sulphur and 45 barrels of condensate per day. Various pooling arrangements are being negotiated to permit orderly development of this new field discovery.

In central Alberta, the joint venture participated with others in a sour gas discovery in the Cheddarville area on a block of 4,800 acres. The discovery well tested 3,200,000 cubic feet of gas with associated recovery of eight tons of sulphur per day.

The OXY-PETROCHEM joint venture expects to pursue an intensified exploratory and development program during 1968 with a minimum of 20 joint-venture exploratory wildcats programmed for the year.

Crude Oil Marketing Division

Occidental's crude oil gathering, blending and marketing activities in the United States are conducted by its

The Permian Corporation, Occidental subsidiary, gathers, blends and markets crude oil. Here, tanker loads at Permian dock in Brownsville, Texas

wholly-owned subsidiary, The Permian Corporation of Midland, Texas, which Occidental acquired in the latter part of 1966. Early in 1967, Occidental acquired the assets of McWood Corporation, Abilene, Texas, a crude oil marketer and refiner, and substantially all of the McWood operations were integrated with those of Permian.

Permian's net earnings from operations for the year 1967, after provision for federal income tax, were 37 per cent higher than those of 1966. In 1967, Permian had the benefit of the tax shelter developed through Occidental's exploration and drilling activities so that Permian's entire pre-tax income was added to Occidental's earnings.

The major contributing factor to the increase in Permian's earnings for 1967 was the acquisition of the former McWood Corporation operations. In addition, Permian's own business volume continued to expand. The volume of crude handled by Permian in 1967 with the inclusion of McWood was 161,347,000 barrels compared with 106,392,000 barrels handled by Permian alone in 1966, an increase of 52 per cent. The daily average for 1967 was 442,047 barrels compared with a daily average of 291,484 barrels in 1966.

The integration of McWood into Permian resulted in eliminating substantially all the expenses of McWood's administration. It also resulted in the elimination of duplicate field operations where facilities were formerly furnished by both companies. To illustrate this latter point, immediately after the acquisition, Permian's and McWood's combined rolling stock consisted of 566 tractors and 509 tank trailers. By the end of 1967, rolling stock amounted to 360 tractors and 375 tank trailers, carrying an increased amount of product.

At year end, Permian's operating facilities included 4,405 miles of pipeline gathering systems with a daily throughput capacity of 513,500 barrels, 22 truck terminals, 13 barge terminals, and storage facilities with a total capacity of approximately 4 million barrels. Permian is presently completing two pipeline systems aggregating 145 miles with a daily capacity of 51,000 barrels and storage of 110,000 barrels. It is purchasing crude oil from 18,250 leases in a 15-state area of the United States and in Canada and Mexico for import into this country. Payments are being made to approximately 53,000 interest owners.

Permian's marketing personnel report firm demand for domestic crude oil with refineries operating at near maximum capacity and product demand increasing. It appears that long-range demand will remain firm. For the past several years, drilling activity in the United States has been at a low ebb, but the increasing demands being made for domestic crude should serve as an incentive to step up drilling. This, in turn, should result in increased marketing business for Permian.

Permian's first venture into the gas processing industry was initiated when five such plants in Texas and Louisiana were acquired from McWood. Since then, two plants have been sold and a new plant constructed.

Coal Division

On January 25, 1968, the shareholders of Occidental and Island Creek Coal Company approved a plan and agreement of merger for the two companies. The merger became effective on January 29, 1968, and Island Creek is now operating as a wholly-owned subsidiary of your company under the able management of its chairman, James L. Hamilton, and its president, William Bellano. Island Creek is the third largest coal producer in the United States and has grown rapidly in the past five years. During this time, its operating earnings have more than tripled, and the number of tons of coal produced has doubled.

Island Creek's net profit before federal income taxes for the year 1967 was $8,941,000, an increase of 14 per cent over the 1966 pre-tax net profit of $7,843,000. Total gross income in 1967 reached an all-time high of $140,266,000, up 2.4 per cent over 1966 gross income of $136,933,000. Financial results of Island Creek for the year 1967 have been consolidated with those of Occidental on a pooling of interests basis. 1967 cash flow from net income and depreciation exceeded $15 million. During the year, expenditures for new equipment and the construction of five new mines totaled approximately $25 million.

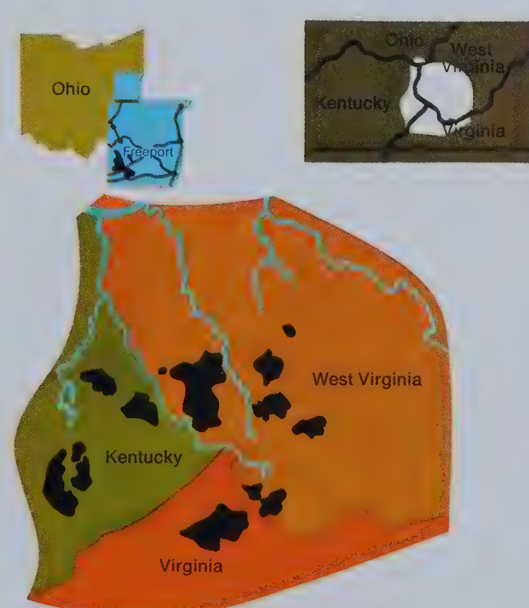
History of Island Creek Coal Company

Island Creek Coal Company's earliest corporate predecessor was the United States Coal & Oil Company. Thus, with its merger into Occidental, Island Creek has come full circle, back into the coal and oil business again.

The company started mining coal in the early 1900's in southern West Virginia and has steadily grown, through internal development and acquisitions, to its present position as the third largest coal producer in the United States. Today, its coal mining operations are carried on through three substantially independent divisions, producing steam and metallurgical coal from a total of 18 mines in West Virginia and Kentucky.

The Beatrice Mine in Virginia, operated by the coal division and producing two million tons a year, is deepest coal mine in North America

Island Creek Coal properties, graphically depicted, are located in Kentucky, Utah, Ohio, Virginia and West Virginia. Black areas indicate mine holdings. Utah and Ohio map segments show cities closest to mine properties in those states



In addition, it has in various stages of construction or development five large new mines, including two new metallurgical coal mines in Virginia, one of which is the subject of a new joint venture with a major steel company. Island Creek supervises production at two metallurgical coal mines in West Virginia owned jointly with National Steel Corporation, at one metallurgical coal mine in Virginia owned jointly with Republic Steel Corporation, and also produces coal from several mines operated for it by independent contractors in Virginia, West Virginia and Kentucky. Island Creek, in its own and joint venture operations, now has more than 7,000 employees.

Most of Island Creek's production is sold in the steam coal market in the eastern United States, and in the metallurgical coal market, both in the eastern United States and abroad — in Canada, Japan, Western Europe and South America. In addition to its own production, Island Creek markets some coal produced by others. Sales offices are maintained in seven cities with general sales offices in Cleveland, Ohio.

Coal Marketing

In 1967, Island Creek sold 26,082,000 tons of coal, an all-time high for the company. Sales of coal from mines it owns and other mines it supervises increased 7.4 per cent over 1966.

Island Creek's coal sales by markets were distributed as follows: 41 per cent to electric utilities, 23 per cent to metallurgical use, 8 per cent to overseas export, and 28 per cent to industrial, lake and retail markets.

Island Creek Share of Industry Markets

	1967			
	United States*		Island Creek	
Major Markets	Tons (000)	Percent of Total Markets	Tons (000)	Percent of Total Markets
Electric Utility	272,000	50.2	10,703	41.0
Coking	91,000	16.8	6,038	23.2
Export	49,500	9.1	1,979	7.6
Industrial Retail, and Lake	129,600	23.9	7,362	28.2
Total Markets	542,100	100.0	26,082	100.0

*PRELIMINARY

Total demand for coal in the United States and abroad continued to grow during 1967. An estimated 542 million tons of bituminous coal were sold during the year, up from 532 million tons a year earlier. Electric utility air-conditioning loads were below normal during the summer months, but total utility coal usage in 1967 nevertheless exceeded that of 1966 by 3 per cent.

Coal prices realized by Island Creek generally kept pace with increased costs of materials and supplies during the year. Automatic escalation provisions are contained in all long-term contracts (representing nearly half of the total tonnage) to provide for price increases or decreases reflecting changes in major cost elements.

Island Creek's management expects that the demand for coals will remain strong during 1968 and into the foreseeable future. In fact, forecasts of coal demand over the next five years indicate that Island Creek and the industry will have to increase the number of new mine openings to meet this demand.

It is estimated that coal consumption nationally will increase by roughly 100 million tons at five-year intervals, and will be over 800 million tons by 1980. Most of this increase will come in the electric utility market, which historically has grown at a rate of 7-8 per cent a year. This forecast does not include any estimate for sales which may result from the development of whole new markets for coal, such as the commercial production of gasoline, pipeline gas and other hydrocarbons, although Island Creek believes such developments are bound to come.

Production of Coal

Island Creek production in 1967 totaled 25,880,000 tons, including production at the jointly-owned mines supervised by Island Creek, up 6.4 per cent over 1966 production of 24,317,000 tons, comparing with an estimated increase nationally in bituminous production of 2.8 per cent.

Because of its wide variety of types of coal and its favorably located reserves, Island Creek's production is expected to continue to increase at a rate faster than that of the industry as a whole. The five new mines already under construction or development will increase annual production to approximately 40 million tons by 1971.

During 1967, initial production was started at two of these mines. The Virginia Pocahontas No. 1 mine started to produce in May of 1967, and is expected, upon reaching full output in late 1968, to produce coal for the metallurgical market both here and abroad at an annual rate of 2 million tons. Production of steam coal began at the Gund Mine in eastern Kentucky during August, 1967. Coal from this mine will be shuttled by unit trains to three utilities under long-term contracts, and the


Modern continuous mining machine, used by Island Creek Coal Company, claws out seams of coal much faster than conventional methods


Coke oven testing coal blends


Miners come out of shaft after full day of underground work in one of company's coal mines

mine is expected to have a capacity of 2 million tons in the latter part of this year.

Coal Mine Construction Program

The focal point of Island Creek's expansion in the metallurgical coal market has been its extensive reserves of low volatile coal in Buchanan County, Virginia. The first mine to be opened in these reserves was a joint venture with Republic Steel Corporation. The second is the wholly-owned Virginia Pocahontas No. 1. Construction of a third mine, which will be another steel company joint venture, is under way with initial production expected during the winter of 1968. A fourth mine is currently being engineered for this area.

For the fast-growing utility market, Island Creek has three mines in various stages of development and construction. In addition to the Gund Mine, the Hamilton Mine, located near the Ohio River in western Kentucky, will be the company's largest mine and one of the largest underground mines in the United States. Initial coal production from this mine is expected during the summer of 1968, and its capacity, once full production is reached, will be in excess of 5 million tons per year. The Vail Mine, located in Ohio, started to produce coal during the first quarter of 1968, and will have an ultimate capacity of 2,500,000 tons annually.

Each of these steam coal mines has rapid-loading facilities. Those at the Gund and Vail Mines are designed to accommodate 10,000-ton unit trains. Those at the Hamilton Mine are a unique adaptation of the unit train principle to barge transportation on the Ohio River, and will permit the loading of barges at the rate of 4,000 tons per hour.

The expected capital costs of the five mines presently under construction exceeds $65 million, of which approximately one-half had been expended through 1967. To meet the increasing demands for coal in this country and abroad, a number of additional mines are being planned and in some cases the engineering has already been accomplished.

Coal Reserves

Island Creek's reserves of metallurgical and steam coals at the end of 1967 totaled some 2.6 billion tons owned, leased or under option. In addition to these controlled reserves, some 809 million tons of recoverable coal were contained in adjacent coal properties which, in your management's opinion, can most economically be mined only by Island Creek. Controlled reserves increased by some 241 million tons during 1967, primarily in western Kentucky steam coals.

Fertilizers and Agricultural Chemicals

Occidental's interest in the dynamic fertilizer and agricultural chemicals industry has grown steadily over the past few years. 1967 marked the culmination of much of your company's preliminary planning, construction and acquisition effort, setting the stage for the expected future growth and development of both domestic and foreign fertilizer and agricultural chemicals markets.

Early in the year, all of Occidental's fertilizer and agricultural chemical groups were consolidated into a single division under the name of Occidental Chemical Company (OXYCHEM). Key officers were placed in charge of major functional areas such as world-wide production, retail sales, planning and control, and research and development, all staffed with experienced personnel. With this expanded staff capacity, a long-range planning program was initiated. Building on this increased planning and control function, OXYCHEM embarked upon a program during 1967 to analyze and evaluate projects in both domestic and foreign markets.

Several important changes were made in this sweeping consolidation. First, all previous corporate structures were welded into the new framework. These included The Best Fertilizers companies of California, Texas, Arizona and Hawaii; Occidental Corporation of Florida; Greenbelt, Summers and Ashkum divisions, and the Research and Development Division at Lakeland, Florida. Under the new organization, Occidental Chemical Company now has prime responsibility for production and marketing of all fertilizers and agricultural chemicals for your company.

In July, coincident with the organizational changes, the headquarters of OXYCHEM were moved from New York City to the newly-acquired Occidental Building in Houston, Texas. This move places divisional headquarters much closer to prime markets, and our world-wide fertilizer and agricultural chemical activities are now controlled and coordinated from these new offices.

As might be expected, immediate results of the consolidation have been registered principally in the area of cost control. Duplications of jobs, offices and facilities have been eliminated. This has resulted in substantial cost reductions, and will continue to do so.

While the fertilizer industry registered a poor year in general — and your company was no exception — we were able to see some of the early fruits of our consolidation by successfully shipping more than 100,000 tons of diammonium phosphate to India during the last half of 1967. This represents almost one fourth of our

Harvesting record production of tomatoes on California farm which, with help of OXY's Best fertilizers, more than doubled state average

Note effect of OXY's Best fertilizers on corn (left and right) compared to nitrogen only (center)

Best yields 108 sacks of rice per acre

total production from the Suwannee River chemical complex, which completed its first full year of operations. The operation of the complex demonstrated production rates of all products substantially above the design rates; however, the year's adverse marketing conditions reduced the overall production below design levels for the first 12 months.

Despite adverse conditions, OXYCHEM did make a significant and successful entry into several new fertilizer markets during 1967. The following chart reflects the growth of your company's production from our Suwannee River chemical complex in its first full year of production:

Suwannee River Phosphate Division Shipments

Product	1966*	1967
Triple Superphosphate	38,000 tons	152,000 tons
Diammonium Phosphate	19,000 tons	197,000 tons
Super Phosphoric Acid and other products	—	26,000 tons*

*Plant in operation only during last quarter of 1966.

The bulk of OXYCHEM's super acid shipments were made from our Lakeland, Florida, converted pilot facility. The new plant at the chemical complex will contribute the bulk of shipments in 1968.

From the above it can be noted that shipments of diammonium phosphate in 1967 increased substantially, and movements of triple superphosphate also had significant increases. Sales of OXY superphosphoric acid reflect the demand for this revolutionary new material for use in the rapidly-growing liquid fertilizer industry. With the new commercial plant at the Lake City complex in full operation, 1968 should show greatly expanded sales and increased contribution to earnings.

Also, during the year, the expansion of the Suwannee River Mine was completed increasing phosphate rock production from 1.5 to 3 million tons annually. Included in the expansion construction program were installations to improve process and operating cost efficiencies of both the original and new facilities. Shipments of all grades of rock phosphate increased from 1,136,000 tons in 1966 to 1,700,000 by year-end 1967, and is estimated to reach 3 million tons in 1968.

Occidental's Jacksonville, Florida, bulk terminal began during the year to handle non-fertilizer bulk cargoes. Its capability to handle these materials, as well as fertilizers, should materially increase both the tonnage and the corresponding revenue credited to this modern facility.

Expansion and modernization programs were continued at the company's plants throughout the United States. These programs were aimed toward increasing profits by diversifying our product lines to fill the specific requirements of the areas where our operations are located. OXYCHEM's newly-centralized direction and control is headed by A. P. Gates. Mr. Gates, president of OXYCHEM, is supported by an able team of executives and personnel.

Domestic Fertilizer Marketing

Occidental now has a unified distribution network encompassing the most productive farming areas in the United States.

Adverse planting conditions in the Midwest, coupled with industry-wide over-production, caused retail and wholesale prices to drop considerably during 1967. However, in the closing months of 1967, your company posted a price increase on phosphate products which now appears firm.

Demand for fertilizer and agricultural chemicals are expected to rise. Sales continued upward in those areas not exposed to extreme weather conditions. Occidental Chemical Company's overall sales in the Western Division posted a 20 per cent increase, establishing a new all-time record of shipments for this division. Operations showed a substantial net profit.

Among the highlights of this year's work with California growers was the record production of tomatoes — 52 tons per acre! This more than doubles the state yield average for this high value crop.

Using the new superphosphoric acid from our Florida plants, your company's engineers and agronomists were able to develop a line of pelleted fertilizers under the trademark "ZIPP," specially designed for the crops and growing practices in the Southwest. This undoubtedly helped our Southwestern Division retain its position as the largest supplier of fertilizers in the Southwest.

Results from this first year's test marketing of "ZIPP" have been even better than anticipated. Among the most impressive was the highest rice yield ever recorded in the Gulf Coast rice growing area — 50 barrels of rice per acre!

"ZIPP" registered more than agronomic successes. During 1967, these new grades represented more than 17 percent of the Southwest region's total fertilizer sales. During a period of extreme price depression, especially in storm-racked Texas, growers were willing to pay a premium for "ZIPP."

The first of Occidental's nation-wide marketing programs was launched during the last weeks of 1967.

Tank cars deliver anhydrous ammonia to Occidental's Suwannee River chemical complex for use in manufacture of fertilizers

Company's modern chemical complex in Florida works around the clock to meet heavy schedule of deliveries to fertilizer consumers

Foremost among the plans for 1968 is an entirely new identification program to consolidate all of the subsidiary's previous marketing entities under the OXYCHEM name and trademark. All other previous corporate fertilizer identifications are being replaced, and the BEST brand fertilizers and agricultural chemicals are being expanded nation-wide so that your company's name and products will be familiar by-words in the prime agricultural areas of the United States.

INTERNATIONAL ORE & FERTILIZER CORPORATION (INTERORE)

This subsidiary of Occidental Petroleum Corporation, engaged in the international merchandising of fertilizer and fertilizer raw materials, continued its multi-million ton sales level of fertilizers and phosphate rock in addition to potash, pesticides and chemical products. These tonnages included substantial volumes of Occidental's own production from operations in Florida, Texas and California.

INTERORE is headed by B. D. Cooper, chairman, replacing H. S. Ten Eyck, who retired during the year. Mr. Ten Eyck will continue with your company as a consultant for international marketing and trading. Ginello Benini and Richard Collins will continue to look after INTERORE's European operations. The top management group was rounded out in November with the addition of Eugene P. Foley as president of INTERORE. Previously Mr. Foley has served as Assistant Secretary of Commerce and as head of the Small Business Administration.

Through its subsidiaries and affiliates, INTERORE functions as an independent merchandiser in most of the world's fertilizer producing and consuming countries with local offices in 23 countries. During 1967, INTERORE responded to the continuing increase in world fertilizer demands by expanding activities in multilateral transactions, including barter, to assist developing countries in overcoming foreign exchange shortages. In addition to substantial volumes of fertilizer material moved under the United States government-enlarged programs administered by the Agency for International Development, INTERORE has participated substantially in sales under privately-financed procurement programs and those financed or assisted by foreign governments. These sales of United States products abroad make an important contribution to the nation's balance of payments problem.

International Fertilizer Production

In 1967, construction of the $30 million, 1000-ton per day urea plant for the Saudi Arabian Fertilizer Company was begun, and is presently scheduled for completion in March, 1969. Occidental, in accordance with its agreement with the Saudi Arabian government agency, Petromin, has provided engineering and technical services to the project and will provide similar services, including production supervision when actual production begins.

The facility, located in Dammam, Saudi Arabia, represents one of the better plant locations for shipping solid nitrogenous fertilizer materials to the high fertilizer importing areas of the world such as South Asia, East and Southwestern Africa, Australia and the Mediterranean countries. The product will be marketed by INTERORE and will afford Occidental a significant position in the supply of world-wide fertilizer needs.

Moroccan Phosphate

In early March of 1968, your company completed a feasibility study on its Moroccan phosphate chemical project. By virtue of current depressed international fertilizer prices together with increased sulphur costs and balance of payments problems, the project is currently being reevaluated by the Moroccan government. Occidental will determine whether the project can be made sufficiently attractive for the company to join with the Moroccan government in making the required capital investment.

Oxytrol Division

During 1967, the OXYTROL division made very significant progress. OXYTROL is Occidental's patented system for preserving perishable fruits, vegetables, meats and flowers during shipment through the use of a controlled inert nitrogen atmosphere within the shipping container.

The efforts of our technical research group have resulted in major improvements to the OXYTROL equipment to the point where the system is practically foolproof, and the OXYTROL concept is presently being employed on large-scale commercial applications in both land and sea transport.

Production of OXYTROL systems was started last year for a special marketing program with a major perishable products transporter. In addition to the domestic shipments being made with this carrier's equipment, we have recently begun to move produce via truck-rail piggyback transport from California to the East coast for export to Europe. OXYTROL systems on the refrigerated transport trailers are successfully carrying this produce over the extended voyage in excellent condi-

Contact units at multi-million dollar chemical complex in Florida produce sulphuric acid from molten sulphur for manufacture of fertilizers

Construction has begun on $30 million SAFCO urea plant at port of Dammam in Saudi Arabia with Occidental to manage plant and market output

tion. These and other shipments of perishables using our system via piggyback trailers and seagoing containers would normally have required air transportation at much higher cost with less satisfactory results.

In addition to the equipment research and development, our biological research program has increased our knowledge of commodities which can be benefited by OXYTROL-produced atmospheres and improved cryogenic concepts are now being applied to the system applications. OXYTROL has provided our customers with many important marketing advantages.

To capitalize on these benefits, a major change to the customer's marketing program is often necessary, and the time required to accomplish these changes has been reflected in our own marketing program timetable. 1968 will see many of these matters resolved, and we expect that our market position in the perishable transportation field will increase rapidly from now on as the vast market potential is virtually unscratched, both in the United States and abroad. Plans include the expansion of our domestic business and the extension into other areas, opening up entire new markets which, before the advent of OXYTROL, could not be economically supplied by conventional transportation methods.

Occidental Minerals Division

Occidental Minerals Corporation, a wholly-owned subsidiary of your company, was formed in 1966 with a view to putting Occidental into mineral exploration activities in continuation of our world-wide search for natural resources. Early in January, 1968, the company was fortunate to acquire the services of Dr. Paul Bailly as president of the division. Dr. Bailly came to Occidental after 17 years with Kennecott Copper Company. During the last seven of these years he served as president of Bear Creek Mining Company, Kennecott's domestic exploratory subsidiary.

The year 1967 saw the beginning of activity in many areas of Occidental's minerals division, including the continued search for Moroccan copper, a computerization of our northern Florida phosphate mining program, the continuation of our Tunisian phosphate and potash brine programs, several exploration efforts in domestic copper in Arizona and Nevada, and preliminary activity in the search for uranium, base metals and rare earths.

Division geologists examined approximately 100 prospects in the Arizona and Nevada copper belt in 1967 looking for either shallow copper dioxide or large deep porphyry copper deposits. Many of these prospects will require continued evaluation in 1968.

Occidental's partners, the initial leaseholders in the Walker River Indian Reservation, are currently negotiating the transfer of a substantial part of their interest to a strong domestic mining company which would in turn be Occidental's partner in the exploration and exploitation of this prospect. As indicated previously, a very significant iron ore deposit has thus far been uncovered on the reservation. In all probability, however, exploitation of this iron ore will have to await the development of a major west coast-based United States steel industry. In the interim, the copper prospects, from an exploration point of view, would appear to be as good as any in the United States, and a continued search for copper at an accelerated pace with our new partners will be conducted during 1968.

Sulphur Division

During 1967, Jefferson Lake Sulphur Company and its subsidiary, Jefferson Lake Petrochemicals of Canada Ltd. (PETROCHEM) again, under the leadership of Eugene H. Walet, Jr., achieved record sales and earnings. Consolidated sales and net profits showed a very substantial increase over last year.

Jefferson Lake Sulphur alone also had record sales and earnings in 1967. Production of sulphur from its Long Point, Texas, mine and its 50 per cent-owned sulphur recovery plant in Tilden, Texas, totaled 317,000 long tons. Sales exceeded 323,000 long tons, with 60,000 long tons exported and the balance shipped to domestic users including OXYCHEM's Florida fertilizer plant. With production and sales tonnages comparable to last year, and little change in the average price received for sulphur, the substantial improvement in Jefferson's earnings reflects continued and effective control by experienced and efficient management over production and other costs.

PETROCHEM had net income of $3,907,000 (U.S.), a gain of 49 per cent over 1966, reflecting substantial increases in tons of sulphur produced and sold and in sulphur prices realized. Production and sales of sulphur from its sulphur recovery plants in Peace River, British Columbia; Coleman, Alberta, and from its small interest in a recovery plant in Wimborne, Alberta, were maintained during 1967 at approximately 80,000 long tons.

The capacity of the Petrogas Processing Ltd. plant near Calgary, Alberta, was expanded in early 1967 resulting in substantial increases in production and sales of sul-

Aerial view of Occidental's new sulphur mine discovery at Lake Hermitage Dome near New Orleans, which has started producing molten sulphur

Newly-completed sulphur wells await hookup for production

Barge-mounted power plant is nerve center of mining complex

phur. This plant is owned 31 per cent and operated by PETROCHEM. During 1967, gross production rose 89 per cent to 433,000 long tons, and sulphur sales from the expanded facilities increased 40 per cent to 369,000 long tons.

Overall from the three plants operated by PETROCHEM, sulphur production reached 513,000 long tons and sales totaled 453,000 long tons, of which 169,000 long tons were exported through Vancouver to overseas customers and 284,000 long tons were shipped to Canadian and United States users. Production and sales of pipeline gas, propane, butanes and other petroleum products from the Petrogas plant were comparable to last year's totals.

On a combined basis, Jefferson Lake Sulphur and PETROCHEM produced or held working interests in sulphur output from six plants in Texas and western Canada totaling 830,000 long tons in 1967, a 33 per cent increase over 1966.

Average prices received on total domestic and export shipments from Texas plants remained virtually unchanged during 1967 at $30.81. Average prices received on all shipments from Canadian plants increased 45 per cent to $30.59 per long ton. At this writing, Freeport Sulphur Company followed by Texas Gulf Sulphur Company have just announced an increase of $3.00 per long ton in their domestic sulphur prices.

Lake Hermitage Dome Plant Completed

Construction of the new $5 million Frasch plant at Lake Hermitage Dome located in Plaquemines Parish, Louisiana, about 30 miles south of New Orleans, was completed approximately on schedule. This facility embodies the latest in engineering design and automation and has a capacity of three million gallons of hot water per day. Production from only five wells utilizing about 2½-million gallons of water has been running close to design capacity. These rates should improve as production continues, and should add substantially to your company's 1968 earnings. Sulphur will be barged from the plant to a new terminal built on the Mississippi River.

Saudi Arabia Plant Under Way

After approval of Occidental's feasibility study by the Saudi Arabian government agency Petromin, a contract was signed by your company and Petromin for a joint venture corporation to construct and operate facilities for the production of sulphur from sour gases in the Eastern Province of Saudi Arabia. The corporation, to be called Petromin Sulphur Company, will be owned one-third by Occidental and two-thirds by Petromin. The total capital investment is estimated at $19,600,000, with Occidental and Petromin providing these funds in proportion to their ownerships. Arrangements for such financing are being developed.

The sour gases are currently available from operations of the Arabian American Oil Company (Aramco). The projected rate of sulphur production is 200,000 long tons per year. Plant construction is estimated to begin the last half of 1968 with initial operations anticipated by early 1970. Interore of Saudi Arabia, a wholly-owned subsidiary of Occidental, will market the sulphur on a commission basis.

Other Sulphur Exploration and Development Activities

Exploration drilling for sulphur in 1967 on the Potash Dome, about 40 miles south of New Orleans on the Mississippi River, indicated the presence of sulphur in the caprock of this dome. Studies are being made to determine the size of a Frasch plant which would be feasible to mine this tonnage.

Mineral rights to approximately 5,300 acres in Pecos County, Texas, were acquired through leases from the University of Texas and under an agreement with Texas American Sulphur Company. Drilling of exploration wells on this acreage is proceeding, and if sufficient sulphur reserves are discovered, a pilot plant will be constructed to determine if the Frasch process can be employed. Additional areas in Pecos, Culberson and other West Texas counties are also being screened for sulphur possibilities, and leases for sulphur rights are being negotiated in certain areas.

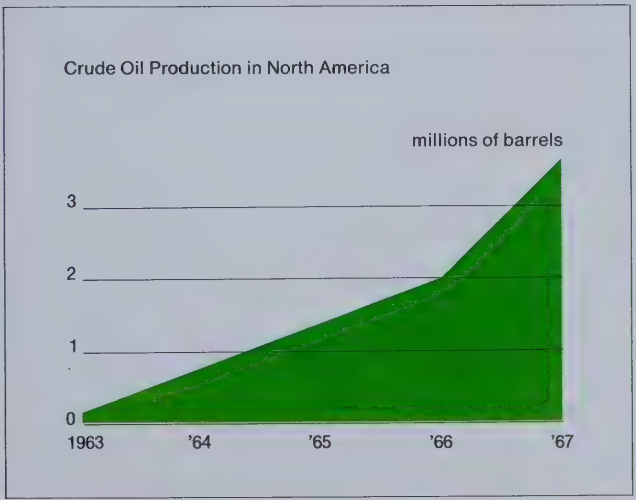
Numerous sour gas and Frasch-type prospects in the United States, Canada, Mexico and the Middle East countries are being evaluated. Close examination of other basic sources of sulphur such as pyrites and gypsum in the United States and overseas is being made, and efforts to diversify Jefferson's sulphur operations into these fields are being pursued.

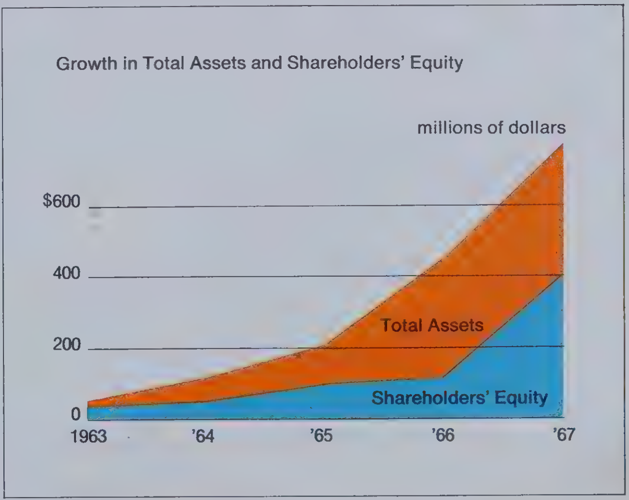
Sulphur Outlook for 1968

World-wide demand for sulphur continues to grow and exert pressure on the industry to develop increased productive capacity of this vital raw material. Free world consumption of sulphur in all forms rose in 1967 to an estimated 26.5 million long tons, with elemental sulphur accounting for 15.5 million long tons.

In your management's opinion, additional upward adjustments in price will eventually be required to permit the exploration for and recovery of sulphur from more costly, marginal sources to meet future demand which

Elemental bulk sulphur is loaded into railroad gondolas for shipment from Canada to Australia, Taiwan and other offshore export countries





is expected to continue to grow at 4-to-5 per cent per year. The recently announced $3.00 per long ton increase in sulphur prices by two major producers means that a general industry increase is likely to follow.

Production of sulphur from Jefferson Lake's United States and Canadian plants is forecast to exceed 1,200,000 long tons in 1968, a 45 per cent increase over last year's record output of 830,000 long tons. It is hoped that by year end, several of the projects discussed earlier will have developed sufficiently to augment our overall capacity to meet both larger captive demands as well as the constantly-rising consumption throughout the world with a corresponding increase in your company's earnings.

Research and Development

During the year 1967, Occidental's research activities were consolidated into one central department under Occidental's subsidiary, Garrett Research and Development Company, Inc. As part of this program, the phosphate research laboratory in Lakeland, Florida, was closed down and the staff moved to the Suwannee River Mine chemical complex at Lake City, Florida.

This move is expected to provide considerable additional technical support for the plant's operation as well as providing better facilities and raw materials for your company's future agricultural research program. A modern, new research facility for this group will be built at the Suwannee River Mine chemical complex.

A number of corporate research projects were actively pursued by Garrett Research in 1967, one of which should lead to the construction of a plant during the year. At present, this division is actively investigating a number of areas of considerable potential profit for Occidental, and it is felt that programs now under way should lead to a continued flow of technical advancements and new manufacturing opportunities for your company.

Garrett's contract research activities continued through the year 1967, and at year's end there was a substantial backlog of contracted projects. Included in this work is a contract with the federal government for the study of a novel company-developed waste water purification method which proposes, among other possible accomplishments, to recapture and purify water discarded into sewers and make it applicable for low cost irrigation and other profitable reuse purposes.

When your company acquired Garrett in October, 1966, this research company turned its attention from serving outside clients to concentrating on Occidental's research and development needs. While internal research requirements continue to expand, Garrett has been able to resume its research activities with outside contractors. This branch of Garrett's work is now back to its highest previous levels, and it is anticipated it will continue to grow during the coming years.

To accommodate this increased activity, both within and without Occidental, the Garrett facilities in La Verne, California, are currently being doubled.

Homebuilding Division

1967 was not a profitable year for the homebuilding industry as a whole in Southern California. In spite of the reduced demand for homes, due largely to difficulty in securing mortgage money at suitable rates, operations of your company's homebuilding division, Deane Brothers, Inc., were carried on at near break-even levels. While its residential home sales were greatly reduced, the division had offsetting gains from profitable land sales and made significant progress in preparing for the anticipated future growth of the industry in Southern California in 1968 and years ahead.

Five projects comprising an eventual 2,632 homes have been under construction and open for sales for varying periods of time. With approximately 700 homes remaining to be built, these projects continue to experience good sales at a rate far in excess of that for the industry as a whole.

Deane Brothers, creators of the "most copied kitchen in America," the exclusive Deane Garden Kitchen, startled the homebuilding industry again in 1967 by unveiling another major innovation — Deane Garden Homes. This concept was described by Home Builder's Journal as "the totally new glamour design . . . exciting, fresh, wonderful . . . another example of Deane Brothers innovation which is years ahead of the industry." The public agreed, and sales in the Garden Home development in Huntington Beach, California, are brisk. These innovations also brought Deane Brothers commendation from House and Home magazine where they were designated by that leading trade publication as "Top Performer for 1967."

In addition to these projects presently in progress, three other major projects totaling over 3,600 residential units, plus recreational facilities, will be open for sales in 1968. In southeastern Orange County in California, Deane Brothers is developing its Lake Forest project. This project will produce a total of 1,680 residential units, plus commercial apartment and recreational facilities. It will be open for sales in April of 1968.

Intensive work at Garrett research laboratories in La Verne, California, plays important role in success of Occidental's development projects

Technician runs laboratory test

Attractive Deane Garden Homes add charm and beauty to living

In the community of Westlake, located on the border of Los Angeles and Ventura counties, preliminary construction has started on 750 homes. Sales in this project will also commence in the second quarter of 1968. The third project, consisting of 1,600 to 2,300 homes, will be located in Huntington Beach adjoining Deane Brothers' highly-successful Pacific Sands project. Construction and sales should commence on these homes some time in the third quarter of 1968.

These projects in the prime homebuilding area of Orange, Los Angeles and Ventura counties of Southern California will provide opportunities for use of Deane Brothers' experience in quality homebuilding and should produce a vehicle for future profits in any turnaround situation in the real estate market.

JOINT VENTURE WITH HOLIDAY INNS

Your company's joint venture with Holiday Inns for the construction of hotels in Morocco is proceeding on schedule. The first hotel at Marrakech is expected to be ready for occupancy in December of this year. Three more hotels at Fez, Tangier and Casablanca are also under way. They will be 300-room, 4-star hotels, equal to the most modern in Europe.

Occidental and Holiday Inns have signed agreements for further joint ventures covering similar hotels in Tunis, Tripoli and Monaco, with negotiations under way for similar developments in a number of other European and North African countries.

Financial Review

The financial structure of your company was greatly strengthened in the past year. Earnings from operations in 1967, excluding $12,861,000 in extraordinary items, totaled $32,687,000, a 32 per cent increase over the $24,689,000 earned from operations in 1966, which excludes $5,685,000 in profits from extraordinary items. This improvement reflects increased earnings from domestic oil and gas production, crude oil marketing and transportation, coal and sulphur operations. This impressive growth was realized even though:

- Production had not yet started in Libya.
- Production had not yet started at the Lake Hermitage Sulphur Dome in Louisiana.
- Major facility expansion at Island Creek Coal was still in process.
- The agricultural chemical industry was extremely depressed.
- The homebuilding industry in Southern California had another disappointing year.

Gain from the sale of Tenneco preferred stock is the most significant item included in 1967 extraordinary income of $12,861,000. While some litigation still surrounds this transaction, Occidental's special counsel, Messrs. Phillips, Nizer, Benjamin, Krim & Ballon of New York, have stated that your company has a meritorious defense and should prevail.

Total assets have climbed to $779,132,000 at December 31, 1967, up from $556,868,000 at the end of the previous year. Your ownership interest in the company has grown to $409,120,000 at the end of 1967, an increase of $198,544,000 over 1966. This very substantial increase in net equity resulted primarily from the following:

- Record earnings in 1967.
- Conversion of $61,168,000, 5¼ per cent convertible subordinated debentures in June, 1967. These debentures were originally issued in June, 1966.
- Successful issuance in July, 1967, and conversion in December, 1967, of $100,000,000, 4¾ per cent convertible subordinated debentures.

Your company's cash flow in 1967 reached the record sum of $70,288,000 compared to $49,381,000 over the prior year. Total cash generated in 1967, consisting of net income and charges for depreciation and depletion plus the proceeds from issuance of convertible debentures, borrowings and production payments, totaled $292,766,000.

At December 31, 1967, our cash balances totaled $120,703,000, a $74,834,000 increase over 1966. This significant improvement in cash liquidity plus $8,790,000 in marketable securities created an almost 1:1 ratio of cash to current liabilities at year end. Liquid reserves in this magnitude provide your company with meaningful flexibility at a time when the world monetary situation has created uncertainties in several areas. Net working capital at December 31, 1967, is $172,985,000, and compares with $89,361,000 at the end of 1966.

A major development related to your company's overall improvement in financial strength is the fact that the company first issued commercial paper in 1967. A $50 million line of credit has been made available to the company in connection with these notes by commercial paper dealers, adding very significant operating capital flexibility.

Expenditures for capital and exploratory purposes aggregated $124,067,000 in 1967 compared to $113,164,000 in 1966. Capital expenditures in 1967 were distributed as follows: North American oil and gas exploration and development, 16 per cent; Libyan exploration and development, 12 per cent; Libyan pipeline

Exploration crew prospects for phosphate rock reserves in vicinity of company's Suwannee River Phosphate Mine in northern Florida

FIVE YEAR STATISTICAL SUMMARY OF CONSOLIDATED SUBSIDIARIES' OPERATIONS *amounts in thousands)*

	1967	1966	1965	1964	1963
Oil and Gas Sales and Revenues, including transportation(1)	$514,888	$506,830	$466,970	$426,448	$371,835
Sulphur and Agricultural Chemical Sales	171,428	159,547	144,354	142,277(2)	51,030
Coal Sales	139,424	135,627	109,890	112,112	93,191
Gross Revenues	$825,740	$802,004	$721,214	$680,837	$516,056
Net income before extraordinary items	$ 32,687	$ 24,689	$ 24,361	$ 18,532	$ 13,055
Extraordinary items	12,861	5,685	4,125	4,255	5,593
Total Net Income	$ 45,548	$ 30,374	$ 28,486	$ 22,787	$ 18,648
Earnings per share(3):					
Before extraordinary items	$ .68	$ .55	$ .55	$ .41	$ .25
Extraordinary items	.33	.16	.12	.14	.19
Total	$1.01	$ .71	$ .67	$ .55	$ .44

(1) Does not include sales of production payments.

(2) Increase in "Agricultural Chemical Sales" in 1964 due to purchase of International Ore & Fertilizer Corporation in December 1963.

(3) Based on average number of shares outstanding after giving effect to (a) stock dividends in 1963, 1964, 1965 and 1966; and (b) the issuance of capital stock in connection with pooling of interests.

and terminal facilities, 34 per cent; Island Creek Coal major facility expansion, 19 per cent, and all other assets, 19 per cent.

At the beginning of 1968, the president of the United States invoked regulations to restrict foreign capital investments by United States corporations. Since Occidental is at an important stage in developing the major crude oil and gas reserves discovered in Libya, the company's position under these regulations has been carefully analyzed.

It has been determined that your company can proceed as planned with the development of its Libyan reserves within the framework and intent of such regulations and, because of the cash flow developed in Libya, make a significant positive contribution to the United States' balance of payments. The required remaining investment in Libya will be financed from existing Eurodollar deposits and favorable long-term foreign borrowings arranged, for the most part, in 1967, and operating cash flow to be generated from Libya.

Conclusion

At the conclusion of the tenth full year under present management, comparisons between today and ten years ago are meaningful only as they demonstrate the unprecedented growth enjoyed by your company. For example: book value of consolidated assets—from $1.9 million in 1958 to $779 million in 1967, not including $104 million of assets of our unconsolidated subsidiary, Deane Brothers, Inc.; shareholders' equity—from $1.2 million to $409 million; gross revenues—from $665 thousand to $826 million, exclusive of Deane Brothers; net income—from $92 thousand to $45.5 million; per-share profits—from 3¢ to $3.03 (pre-split).

Along with this, the number of your company's common shareholders has increased thirty-fold, reaching 87,000 by year-end, a 50 per cent increase over one year ago. In addition, the merger with Island Creek Coal Company has created a new class of preferred stockholders, estimated at approximately 13,000, and we welcome these new shareholders into the Occidental family. Primarily through the merger with Island Creek, our total number of employees has increased from about 3,900 at the close of 1966 to approximately 11,500 at the present time.

During the past year, through its coal and Libyan oil, your company has greatly enlarged upon its basic foundation as a producer, developer and marketer of natural resources. Any evaluation of total company assets must take into account that mineral reserves of oil, natural gas, sulphur, phosphate rock and coal are carried on our books at their capitalized cost of discovery or acquisition, which is overall many times less than their appraised values as evaluated by independent and company engineers, and as accepted by the financial institutions under our loan agreements. If these increased values were added, your company's assets would exceed two billion dollars. These vast supplies of raw materials make a reassuring cushion, considering the inflationary spiral which is a continuing aspect of the world's economy.

Over the past 12 months, a number of important organizational changes have occurred which have strengthened your company's management and operational staffs. After serving your company as senior executive vice president and head of the oil and gas division since July, 1959, E. C. "Gene" Reid resigned in May of last year from the active management with your company. He remains on the board of directors, and needless to say his energies are still largely directed toward company affairs. His son, E. F. "Bud" Reid has been appointed manager of the oil and gas division. The other vice presidents of the division, each of whom like "Bud" Reid has served with Occidental for the past eight years, are Charles C. Horace, manager of oil and gas production; Richard H. Vaughan, manager of international oil and gas exploration, and Robert A. Teitsworth, manager of North American oil and gas exploration.

Following the merger of Island Creek Coal Company into your company, James L. Hamilton and Herman L. Vail were elected directors of your company. Mr. Hamilton was chairman of the board and chief executive officer of Island Creek. He continues in these capacities with our Island Creek subsidiary. Mr. Vail is a senior partner of the Cleveland law firm of Sayre, Vail and Steele, and was a long-time director of Island Creek. William Bellano, president of Island Creek, has been elected an executive vice president of your company as well as continuing as president of the subsidiary.

In February, 1968, Claude Geismar was elected to Occidental's board of directors and also as an executive vice president of the company. Prior to joining Occidental, Mr. Geismar was head of Signal Oil and Gas Company's European refining and marketing organization, and is the one person most responsible for the marketing of more than two billion barrels of Occidental's Libyan crude in a period of a few months.

Also in February, Ronald P. Klein assumed the duties of vice president and general counsel. Mr. Klein formerly held the same positions at Hunt Foods and Industries, Inc., and earlier at Del E. Webb Corporation, and brings

Petrogas plant in Canada, operated by PETROCHEM, has capacity to produce 2,100 long tons of sulphur and 3,500 barrels of LPG products per day

Fleet of Permian tank trucks plays vital role in success of Occidental's crude oil marketing division. One of these is shown ready to unload

to your company a strong background of corporate legal and acquisition experience.

Your president's staff has been implemented through the employment, in January, 1968, of Samuel A. Patterson, formerly head of the petroleum division and later assistant to the president of Security First National Bank, who has been elected a vice president and an executive assistant to the president for petroleum operations.

We are pleased to announce that, as this is being written, the boards of directors of your company and Hooker Chemical Corporation have reached an agreement in principle for the acquisition of Hooker by Occidental.

For some time, your management has had in mind that Occidental's entry into the basic chemical industry would be a natural extension of our present areas of operations. A substantial portion of Occidental's mineral reserves find their ultimate use in the chemical industry—oil and natural gas, phosphate rock, sulphur and coal.

Hooker is one of the leading chemical companies in the country and certainly one of the most progressive. Its basic products and processes cover a wide spectrum of the industry, including the manufacturing of chemicals, fertilizers, plastics, detergents and metal treating chemicals. While the major portion of its production and sales are in the United States and Canada, Hooker's international division operates chemical plants in Belgium, Mexico, Australia, Japan, Argentina and Puerto Rico.

In fiscal 1967, Hooker earned $26,175,000 on revenues of $369,344,000. This was after provision for approximately $16 million of income taxes which, after the merger, would come under Occidental's tax shelter.

Under its capable and aggressive management, Hooker has demonstrated a steady growth pattern which has increased revenues approximately 50 per cent over its past two fiscal years. Hooker is in excellent financial condition with more than $366 million in total assets at December 31, 1967. Its current assets at year end of $125,653,000 more than covered its entire current liabilities and long-term debt.

The agreement in principle contemplates a tax-free exchange of one-half share of a new Occidental preferred stock for each of the approximately 9,670,000 shares of Hooker common stock presently outstanding. Each share of the preferred would carry an annual dividend rate of $3.60; would be convertible at any time into three of Occidental's common shares, and be redeemable after five years at $100.00 per share. The basis of exchange or other disposition of Hooker's preferred stock will be worked out later.

In its consideration of this transaction, your management gave particular emphasis to Hooker's demonstrated characteristics of expansion, both internally and through acquisitions and mergers, concluding that the combination of the two companies would add to the financial strength and profitability of each. Through its emphasis on research, Hooker is continually developing new products and processes and, in the words of its dynamic president, Thomas F. Willers, "Growth is a way of life at Hooker."

As soon as the details of the transaction are completed, the matter will be submitted to the shareholders of both companies for approval at which time the proxy statement will explain the matter fully so that you may reach an informed decision.

Your management is pleased to acknowledge the many contributions of our executive and operating staffs without which the company's accomplishments would not have been possible. It is interesting to note that, through the exercise of employees' stock options, approximately 265 executives and supervisory employees of your company and its divisions became substantial company shareholders or added to their holdings during the past year. A total of approximately $9 million was expended by these employees in the exercise of their stock options. Coupled with the incentives of company share ownership offered our employees under our Thrift Plan, this makes certain that the dedication, enthusiasm, ingenuity and drive, which has brought your company so far in so short a time, will continue to serve the interests of you, our shareholders.

By order of the Board of Directors

Armand Hammer

Armand Hammer
President
and Chairman of the Board

March 22, 1968

Occidental Petroleum Corporation and Subsidiaries

Consolidated Statements of Income For the Years Ended December 31, 1967 and 1966

	1967	1966
	amounts in thousands of dollars	
Revenues:		
Net sales and other revenues	$825,740	$802,004
Interest and dividends	5,305	2,670
	831,045	804,674
Costs and Other Deductions:		
Cost of sales	731,866	722,706
Selling, general and administrative, and other operating expenses	55,337	47,124
Interest	10,030	8,350
Federal income taxes (Note 7)	—	1,029
Minority interests in subsidiaries' income	1,710	986
	798,943	780,197
Equity in Net Income of Unconsolidated Subsidiaries (Note 2)	585	212
Net income before extraordinary items	32,687	24,689
Extraordinary Items, net of applicable income tax of $3,500,000 in 1967 (Note 4)	12,861	5,685
Net income	$ 45,548	$ 30,374
Earnings Per Common Share (Note 8):		
Net income before extraordinary items	$ .83	$ .72
Less — Pro forma preferred dividends	.15	.17
	.68	.55
Extraordinary items	.33	.16
Net income	$ 1.01	$ .71
Pro Forma Earnings Per Share, including extraordinary items of $.29 after reflecting conversion of the Preferred Stock into Common Shares and elimination of the related dividend requirement and after recognition of 2 percent stock dividend on Common Shares payable April 30, 1968	$ 1.02	

Depreciation, depletion and amortization amounted to $22,436,000 in 1967 and $17,961,000 in 1966.

The accompanying notes are an integral part of these statements,

Consolidated Balance Sheets December 31, 1967 and 1966

Assets

	1967	1966
	amounts in thousands of dollars	
Current Assets:		
Cash	$120,703	$ 45,869
Marketable securities, at cost which approximates market	8,790	1,364
Receivables, net of reserves of $1,106,000 and $1,014,000 in 1967 and 1966	136,694	115,688
Inventories, substantially at lower of cost (average or first in, first out) or market	35,885	30,907
Prepaid expenses	5,076	3,654
Total current assets	307,148	197,502
Long-Term Notes Receivable	22,382	21,738
Investments in and Advances to Unconsolidated Subsidiaries and Affiliated Companies (Note 2)	55,628	44,957
Property, Plant and Equipment, at cost (Note 3), net of accumulated depreciation, depletion and amortization of $131,576,000 and $125,197,000 in 1967 and 1966	372,201	275,367
Other Assets, less amortization	21,773	17,304
	$779,132	$556,868

The accompanying notes are an integral part of these statements.

Liabilities

	1967	1966
	amounts in thousands of dollars	
Current Liabilities:		
Notes and debt due within one year	$ 17,708	$ 3,237
Accounts payable and accrued liabilities	109,654	102,423
Cash dividends	2,928	2,079
Federal and state income taxes (note 7)	3,873	402
Total current liabilities	134,163	108,141
Senior Funded Debt (Note 5)	165,560	[illegible]
Convertible Subordinated Debentures (Note 8)	—	61,168
Deferred Credits:		
Revenue on sale of future production	52,184	737
Deferred Federal income taxes (Note 7)	3,800	3,094
Other	1,932	1,066
	57,916	5,097
Commitments and Contingent Liabilities (Notes 2, 6 and 9)		
Minority Equity in Subsidiaries	12,373	9,256
Shareholders' Equity (Notes 1, 2, 5, 8, and 9):		
Preferred stock	1,500	1,418
Common shares	8,821	2,218
Warrants	4	12
Capital surplus	279,233	106,196
Retained earnings	119,562	100,046
	409,120	210,676
	$779,132	$568,868

Consolidated Statements of Shareholders' Equity For the Years Ended December 31, 1967 and 1966

	$4.00 Convertible Preferred Stock*		Common Shares**				
	Shares	Amount	Shares	Amount	Warrants	Capital Surplus	Retained Earnings
			(Dollar Amounts in Thousands)				
Balances, December 31, 1966, as restated	1,486,922	$1,486	11,182,274	$2,236	$12	$106,196	$100,646
Net income	—	—	—	—	—	—	45,548
Issuance of shares —							
Exercise of employee stock options and stock warrants	12,719	13	357,321	72	(8)	9,998	—
Treasury stock in acquisition of properties and companies	593	1	—	—	—	405	—
Conversion of debentures	—	—	2,850,148	570	—	156,094	—
Three-for-one split on Common Shares	—	—	29,403,324	5,881	—	(5,881)	—
Dividends —							
Cash on Common Shares	—	—	—	—	—	—	(10,476)
Common Shares	—	—	311,919	62	—	12,406	(12,477)
Cash on common stock by pooled companies prior to pooling	—	—	—	—	—	—	(3,679)
Other, net	—	—	—	—	—	15	—
Balances, December 31, 1967 (Note 5)	1,500,234	$1,500	44,104,986	$8,821	$ 4	$279,233	$119,562

*Preferred Stock, $1 par value; authorized 10,000,000 shares ($100 per share preference in liquidation, aggregating $150,023,400) (Note 8).
**Common Shares, par value $.20 a share, authorized 75,000,000 shares, 38,697 shares held in treasury at December 31,1967 (Note 8).

The accompanying notes are an integral part of these statements.

	$4.00 Convertible Preferred Stock*		Common Shares**				
	Shares	Amount	Shares	Amount	Warrants	Capital Surplus	Retained Earnings
			(Dollar Amounts in Thousands)				
Balances, December 31, 1965, previously reported	—	$ —	10,738,501	$2,147	$17	$ 74,411	$ 41,769
Add — Poolings of interests in 1967 and 1968 with two companies (Note 1)	1,459,231	1,459	—	—	—	17,913	51,608
Balances, December 31, 1965, as restated	1,459,231	1,459	10,738,501	2,147	17	92,324	93,377
Net income	—	—	—	—	—	—	30,374
Issuance of shares —							
Exercise of employee stock options and stock warrants	3,560	3	121,419	24	(5)	3,304	—
Treasury stock in acquisition of properties and companies	—	—	—	—	—	416	—
Conversion of debentures and preferred stock of a pooled company	—	—	10	—	—	157	—
Dividends —							
Cash on Common Shares	—	—	—	—	—	—	(6,579)
Common Shares	—	—	322,344	65	—	8,740	(8,832)
Cash on common and preferred stock by pooled companies prior to pooling	—	—	—	—	—	—	(4,454)
Capital stock by pooled company prior to pooling	29,026	29	—	—	—	1,536	(1,565)
Cost of shares reacquired	(4,895)	(5)	—	—	—	(281)	(1,675)
Balances, December 31, 1966, as restated	1,486,922	$1,486	11,182,274	$2,236	$12	$106,196	$100,646

Occidental Petroleum Corporation and Subsidiaries

Consolidated Statements of Funds For the Years Ended December 31, 1967 and 1966

	1967	1966
	amounts in thousands of dollars	
Source of Funds:		
Net income	$ 45,548	$ 30,374
Add (deduct) —		
Equity in net income of unconsolidated subsidiaries	(585)	(212)
Minority interests in income of subsidiaries	1,710	988
Depreciation, depletion, and amortization	22,436	17,961
Other noncash deductions, net	1,179	270
	70,288	49,381
Proceeds from —		
Issuance of convertible debentures	100,000	61,168
Stock option exercises, etc.	11,473	3,393
Long-term borrowings	50,149	59,712
Sales of properties	8,856	4,940
Sale of future production	52,000	—
	292,766	178,594
Use of Funds:		
Additions to property, plant and equipment	124,067	113,164
Payment of cash dividends	14,155	11,099
Redemption of capital stock of subsidiaries and purchase of treasury stock	—	3,121
Payments on long-term borrowings	46,609	12,698
Investments, advances, etc.	10,561	9,147
Additions to other assets	6,826	6,273
Other, net	6,924	12,482
	209,142	167,984
Increase in Working Capital	$ 83,624	$ 10,610

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

1. Mergers and acquisitions In 1967 and 1968, Occidental exchanged 1,501,290 shares of Convertible Preferred Stock and 6,585 Common Shares held in treasury for the outstanding capital stock of companies engaged in coal production and transportation and marketing of petroleum products. These exchanges have been accounted for as poolings of interests, and the financial statements for 1966 and 1967 have been restated to reflect these transactions. Also, 7,100 Common Shares held in treasury were exchanged for certain small companies engaged in fertilizer operations which were accounted for as purchases.

2. Principles of consolidation The consolidated financial statements include the accounts of Occidental Petroleum Corporation and its significant subsidiaries, other than Deane Brothers, Inc. All material intercompany accounts and transactions have been eliminated (there were no significant intercompany profits or losses on transactions with affiliates not consolidated).

The investments in and advances to unconsolidated subsidiaries and affiliated companies at December 31, 1967, include $39,385,000 applicable to Deane Brothers, Inc. The individual accounts of Deane and its subsidiaries have not been consolidated since its operations as a real estate developer and sales concern are not similar to those of Occidental and consolidated subsidiaries. Condensed summaries (in thousands of dollars) of the financial position of Deane and subsidiaries at December 31, 1967, and the results of their operations for the two years then ended are shown below:

Assets	
Notes and contracts receivable	$ 22,963
Real estate holdings	74,824
Other assets	6,060
	$103,847
Liabilities	
Trust deed notes payable	$ 35,669
Unsecured notes payable	24,000
Other liabilities	4,793
Due to parent company	28,877
	$ 93,339
Net equity	$ 10,508

Income	1967	1966
Sales of residential real estate	$17,160	$23,348
Sales of unimproved land and land contracts receivable —		
Sales by Family Realty Corp., William Development Corp., and Monarch Investment Company subsequent to poolings of interests with these companies	—	4,242
Other	8,844	3,779
Other	3,266	3,256
	29,270	34,625
Costs and operating expenses		
Cost of residential real estate sales	17,407	22,425
Cost of unimproved land sales and land contracts receivable —		
Cost of sales by Family Realty Corp., William Development Corp., and Monarch Investment Company subsequent to poolings of interests with these companies	—	1,792
Other	4,580	2,855
Interest, operating expenses, taxes on income and other	7,372	7,133
	29,359	34,205
Net income (loss)	$ (89)	$ 420

Occidental has guaranteed $30,800,000 of the obligations of Deane.

Deane Brothers, Inc. and subsidiaries' contingent liabilities as of December 31, 1967, are as follows:

(a) As a participant in a number of joint ventures, $9,700,000, and

(b) As seller under liabilities assumed by buyers of residential real estate where no express substitution of debtors was made, $23,000,000. Of these contingent liabilities, $5,600,000 were guaranteed by Occidental.

At December 31, 1967, investments in unconsolidated majority-owned subsidiaries are stated at amounts equivalent to the equity in net assets of those companies, except that certain investments in and advances to foreign subsidiaries and affiliates are stated at the lower of cost or underlying book value.

3. Property, plant and equipment, at cost

	December 31	
	1967	1966
	Amounts in Thousands	
Oil and gas operations —		
North America	$149,920	$134,438
Libya	64,688	7,881
Coal operations	160,741	144,865
Phosphate, sulphur, manufacturing and other operations	128,428	113,380
	503,777	400,564
Less — Accumulated depreciation, depletion and amortization	131,576	125,197
	$372,201	$275,367

All costs of exploring for and developing North American oil and gas reserves are capitalized and charged to operations on a company-wide basis over the estimated productive life of oil and gas reserves. At December 31, 1967, based on estimates prepared by independent or company engineers, these reserves approximate 182,970,000 barrels (gas reserves stated in equivalent barrels of oil). The net book value of oil and gas property, plant and equipment, plus further estimated development costs is $94,290,000, equivalent to 51.5 cents per barrel.

Occidental has expended $23,031,000 in Libyan exploration and development through December 31, 1967. Exploration and development costs for Libya have been capitalized and will be amortized over future production. In addition, Occidental has expended $41,657,000 through December 31, 1967, and has committed an additional $32,000,000 for construction of pipeline and terminal facilities in Libya.

Depreciation of plant and equipment has been provided using the straight-line and declining-balance methods based on useful lives.

4. Extraordinary items During 1967, Occidental acquired approximately 20.5 percent of the outstanding common shares of Kern County Land Company (Kern), through a tender offer. Subsequently, Kern was acquired by Tenneco Corporation and Occidental received Tenneco Preference Stock in exchange for its holdings in Kern. Occidental sold the Tenneco Preference Stock at a gain of $12,782,000, net of $3,500,000 in Federal income tax. At year end, this gain was subject to litigation (see Note 6). The company also realized net gains totaling $2,238,000 from the sales of property, plant and equipment and from other investments and provided for losses relating to the liquidation of foreign ventures of $2,159,000.

During 1966, Occidental sold an undivided 12½ percent interest in sulphur rights for a net gain of $5,792,250 and realized losses on dispositions of property, plant and equipment of a pooled company of $107,250.

5. Senior funded debt Following is a summary of senior funded debt net of current maturities of $9,152,000 at December 31, 1967:

	Interest Rate	Amounts in Thousands
Notes payable principally to insurance companies in installments from 1970 to 1985	5½ %	$ 60,000
Notes payable to banks in installments from 1968 to 1977	5½ % to 6½ %	21,788
Notes payable to insurance companies in installments from 1969 to 1986, secured by mortgages on the Florida chemical complex	5⅞ %	25,000
Installment purchase obligations, secured by mortgages on phosphate deposits		7,449
First Mortgage Revenue Bonds	4½ %	9,910
Promissory notes due 1968 to 1973	6%	21,316
Promissory notes due 1985	6¾ %	7,000
Notes payable to banks (paid in full in January, 1968)	6%	5,100
Other	Various	7,997
		$165,560

Certain of the above notes represent borrowings under agreements which contain covenants relating to maintenance of financial ratios, borrowings, declaration of cash dividends, etc. At December 31, 1967, retained earnings of $83,633,000 were restricted as to payment of dividends under the most restrictive of these covenants.

6. Commitments and contingent liabilities In 1967, an investment banker filed suit claiming a 25 percent working interest in Occidental's oil concessions in Libya or a judgment in the amount of $100,000,000. The plaintiffs allege that they were offered an opportunity to acquire oil concessions in Libya by a third party and that they submitted this to Occidental on the understanding they would participate as a 25 percent joint venturer with Occidental in any oil concessions turned up by said third party. The plaintiffs further claim that the third party turned up and assisted Occidental in acquiring the two Libyan oil concessions awarded to Occidental. Occidental has been advised by special legal counsel that, in their opinion, based upon the information known to them, Occidental has a meritorious defense to the claim and should prevail.

During the period of June through December, 1967, five suits were filed against Occidental in conjunction with the acquisition of approximately 887,000 shares (20.5 percent) of the outstanding capital stock of Kern County Land Company and Occidental's grant of an option to Tenneco Corporation to purchase these shares. The plaintiffs seek either to recover, under Section 16(b) of the Securities and Exchange Act of 1934, profits from that transaction allegedly amounting to $20,000,000, or to impose a constructive trust on the $8,866,000 option price, or to recover punitive damages totaling $25,000,000 for alleged breach of fiduciary duty, or a combination of the foregoing. In the opinion of special legal counsel in each of the suits, Occidental has a meritorious defense to the claims and should prevail.

In January, 1968, two shareholders of Tenneco Inc. have each filed separate suits against Occidental. Each plaintiff claims that Occidental received in excess of 10 percent of a class of security of Tenneco Inc., sold it for an unspecified profit within six months, and is accountable to Tenneco for such profit pursuant to Section 16(b) of the Securities and Exchange Act of 1934. In the opinion of Occidental's special legal counsel, Occidental has a meritorious defense to the claims and should prevail.

In 1964, an action was instituted against Occidental seeking an injunction restraining Occidental from either acquiring from former employees of the plaintiff or using, or benefiting from, certain trade secrets and confidential information allegedly belonging to the plaintiff in the field of superphosphoric acid. The plaintiff also seeks (a) to restrain Occidental from employing the former employees of the plaintiff in any capacity which would require the disclosure by them of such alleged trade secrets and confidential information; (b) to recover treble damages of $8,000,000 claimed to have resulted from an alleged conspiracy to restrain trade and commerce in wet process superphosphoric acid in violation of Section 1 of the Sherman Antitrust Act; and (c) to enjoin, and to recover treble damages (for an unspecified amount) claimed to have resulted from, an alleged willful infringement of a patent issued to Armour. In the opinion of special legal counsel, Occidental has a meritorious defense and should prevail.

Occidental has a noncontributory pension plan covering its employees and those of certain subsidiary companies. The total expense of the plan for 1967 was approximately $1,300,000. At year end, the unfunded past service liability, which is not being amortized, approximated $400,000.

Beatrice Pocahontas Company, owned equally by a subsidiary of Occidental and Republic Steel Corporation, had outstanding, at December 31, 1967, 5¼ percent secured notes payable to an insurance company (due September 1, 1981) of $9,000,000. In addition, Beatrice had outstanding at December 31, 1967, $3,500,000 of notes payable to a group of banks under a four-year revolving credit agreement which provides for borrowing up to a maximum of $4,000,000. Until all of the notes are paid in full, the shareowners of Beatrice are obligated to make proportionate subordinated advances to Beatrice to the extent that it is unable to meet its expenses, obligations, and liabilities, including payments of principal, premium (if any) and interest on debt.

Occidental has guaranteed payment of bank loans of a nonrelated company. The loans are evidenced by notes payable due in installments through 1972. The balance was $13,675,000 as of December 31, 1967. The loans were obtained to finance purchases of notes secured by second trust deeds and conditional sales contracts from Deane Brothers, Inc. See Note 2 regarding additional guarantee of Deane's obligations.

A consolidated subsidiary was contingently liable for unused letters of credit and borrowings by its foreign subsidiaries in the approximate amount of $5,255,000 at December 31, 1967.

Occidental had unliquidated production payments of approximately $14,938,000 at December 31, 1967, which pertain to years prior to 1964 and are not included in the accompanying financial statements due to use of a different method of accounting prior to 1964.

7. Federal income taxes Occidental follows the practice of filing consolidated tax returns including its 80 percent or more owned domestic subsidiaries. Federal income taxes applicable to income of consolidated subsidiaries accounted for on a pooling of interest basis for periods prior to the dates they became subsidiaries have been shown in the financial statements.

As a result of the deduction of certain items for tax purposes, which are capitalized for financial statement purposes, and as a result of the related operating losses created, no Federal or Canadian taxes have been paid or provided, except as noted above, for Occidental or its Canadian subsidiary on operating income for 1966 and 1967.

8. Capital stock and stock options Occidental's shareholders approved a three-for-one split of Common Shares and an increase in authorized shares from 20,000,000 to 75,000,000

on January 25, 1968. The stock split has been reflected retroactively by a charge to capital surplus equivalent to the par value of the shares issued.

The Preferred Stock is entitled to voting rights, cumulative annual dividends at the rate of $4.00 per share, and preference in liquidation of $100.00 per share ($150,023,400 in total). It is redeemable at $125 per share after January 31, 1973, and at declining amounts thereafter and one share is convertible into approximately 2.857 Common Shares. The Company has reserved 4,286,379 Common Shares for conversion of the Preferred Stock.

Options to purchase Common Shares of Occidental have been granted to officers and employees under stock option plans adopted in 1961 and 1966. At December 31, 1967, 1,565,673 Common Shares were reserved for issuance under outstanding options at prices from $4.49 to $35.83 per share, and 48,378 Common Shares were reserved for the granting of additional options. During 1967, options to purchase 1,133,475 Common Shares were granted; options to purchase 1,071,693 shares were exercised; options covering 36,933 shares were terminated; and at December 31, 1967, options for 285,975 shares were exercisable. No amounts have been reflected in the income accounts of Occidental or its consolidated subsidiaries with respect to stock options.

In connection with the acquisition of Island Creek Coal Company, outstanding options to purchase 26,899 shares of $4.00 Convertible Preferred Stock as of December 31, 1967, were assumed by Occidental, of which 7,935 were exercisable at prices from $46.00 to $96.35 per share. During 1967, options to purchase 13,065 shares of $4.00 Convertible Preferred Stock were granted, and options to purchase 12,719 shares were exercised.

During 1967, Occidental's 5¼ percent convertible debentures issued in 1966 and its 4¾ percent convertible subordinated debentures in the amount of $100,000,000 issued in July, 1967, were converted into 4,152,540 and 4,397,934 Common Shares. In calculating average shares outstanding for 1967, the shares issued for the 4¾ percent debentures were treated as having been outstanding from the date the debentures were issued.

9. Event subsequent to completion of auditors' examination On February 26, 1968, Occidental exercised an option to purchase the European refining and marketing operations of Signal Oil and Gas Company ("Signal"). These operations were conducted by various subsidiaries of Signal engaged in oil refining and in the wholesale and retail marketing in Europe of asphalts, gasoline, fuel oils, heating oils, other refined products, and crude oil. The aggregate consideration for the operations before adjustments for changes in equity of the subsidiaries carrying on the operations is $100,000,000. This consideration is payable one-tenth in cash, one-half in shares of a new series of convertible preferred stock of Occidental, and the balance in a subordinated promissory note of Occidental payable in four equal annual installments with interest at rates related to the prime rate. Such preferred stock will rank on a parity with and not senior to the Preferred Stock currently outstanding, with respect to payment of dividends and distribution of assets in liquidation. Holders of such preferred stock will be entitled to receive a cumulative preferred annual dividend of $4.00 per share and may at any time convert such preferred stock into Occidental Common Shares. The conversion rate will be based upon a value of $100 for the preferred stock and an initial conversion price for the Common Shares of 15 percent above the average of the closing prices of Occidental's Common Shares on the New York Stock Exchange for the ten trading days preceding February 26, 1968.

Report of Independent Accountants

ARTHUR ANDERSEN & CO.

To the Shareholders and Board of Directors,
Occidental Petroleum Corporation:

We have examined the consolidated balance sheets of OCCIDENTAL PETROLEUM CORPORATION (a California corporation) and subsidiaries as of December 31, 1967 and 1966, and the related consolidated statements of income, shareholders' equity, and funds for the years then ended. We have also examined the condensed financial statements of a significant unconsolidated subsidiary, which are set forth in Note 2 of the accompanying notes to consolidated financial statements, as of December 31, 1967, and for the two years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of McWood Corporation for the year ended December 31, 1966, and Jefferson Lake Petrochemicals of Canada, Ltd. and Island Creek Coal Company for the years ended December 31, 1967 and 1966, which are included in the consolidated financial statements and which represent an aggregate of approximately 21 and 31 percent of total consolidated assets at December 31, 1967 and 1966, but have received reports thereon by other public accountants who have made such examinations.

In our opinion, based upon our examination and aforementioned reports of other public accountants, the accompanying financial statements present fairly the consolidated financial position of Occidental Petroleum Corporation and subsidiaries at December 31, 1967 and 1966, and the results of their operations and the sources and disposition of funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. It is also our opinion that the condensed financial statements of a significant unconsolidated subsidiary referred to in the preceding paragraph summarize fairly its financial position at December 31, 1967, and the results of its operations for the two years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.
ARTHUR ANDERSEN & CO.

Los Angeles, California
February 20, 1968.

Occidental Petroleum Corporation's Board of Directors, seated left to right: Charles K. Schwartz, A. P. Gates, Eberhard P. Deutsch, Dr. Armand Hammer, Neil H. Jacoby, Dr. Louis A. Rezzonico, Ben C. Deane. *Standing, left to right,* James L. Hamilton, Herman L. Vail, Eugene C. Reid, Paul C. Hebner, Eugene H. Walet, Jr., Arthur Groman, Walter R. Davis. Director not shown: Claude Geismar.

Directors

Dr. Armand Hammer, *President and Chairman of the Board*

Walter R. Davis, *Senior Executive Vice President and President of The Permian Corporation*

Ben C. Deane, *President, Deane Brothers, Inc.*

Eberhard P. Deutsch, *Senior Partner, Deutsch, Kerrigan & Stiles, New Orleans*

A. P. Gates, *Executive Vice President for Agricultural Chemicals and Fertilizers*

Claude Geismar, *Executive Vice President, General Manager Foreign Oil Refining and Marketing Division*

Arthur Groman, *Senior Partner, Mitchell, Silberberg & Knupp, Los Angeles*

James L. Hamilton, *Chairman and Chief Executive Officer, Island Creek Coal Company*

Paul C. Hebner, *Secretary and Treasurer*

Neil H. Jacoby, *Dean, Graduate School of Business Administration, University of California at Los Angeles*

E. C. Reid, *Retired, formerly Senior Executive Vice President*

Dr. Louis A. Rezzonico, *Manager of Personal Investments*

Charles K. Schwartz, *Retired Senior Partner, Gottlieb & Schwartz, Chicago*

Herman L. Vail, *Senior Partner, Sayre, Vail & Steele, Cleveland*

Eugene H. Walet, Jr., *Executive Vice President for Sulphur and Petrochemicals*

Officers

Dr. Armand Hammer, *President*

Walter R. Davis, *Senior Executive Vice President and President of The Permian Corporation*

Eugene H. Walet, Jr., *Executive Vice President for Sulphur and Petrochemicals*

William Bellano, *Executive Vice President for Coal*

A. P. Gates, *Executive Vice President for Agricultural Chemicals and Fertilizers*

Claude Geismar, *Executive Vice President, General Manager Foreign Oil Refining and Marketing Division*

Ernest Csendes, *Executive Vice President for Research, Engineering and Development*

Dorman L. Commons, *Financial Vice President*

Ronald P. Klein, *Vice President and General Counsel*

E. F. Reid, *Vice President, Manager of Oil and Gas Division*

Charles C. Horace, *Vice President, Manager of Oil and Gas Production*

Richard H. Vaughan, *Vice President, Manager of International Oil and Gas Exploration*

Robert A. Teitsworth, *Vice President, Manager of North American Oil and Gas Exploration*

Thomas Wachtell, *Vice President, Executive Assistant to the President*

Samuel A. Patterson, *Vice President and Executive Assistant to the President for Petroleum Operations*

Paul C. Hebner, *Secretary and Treasurer*

Charles J. Lee, *Controller and Assistant Secretary*

Executive Staff

Donald E. Garrett
President, Garrett Research and Development Company, Inc.

Paul E. Bailly
President, Occidental Minerals Corporation

Dean B. Lewis
Assistant General Counsel

John W. Alden
Assistant General Counsel

Michael P. Arra
General Counsel, OXYLIBYA, Inc.

E. F. Wood
President, OXYTROL Division

Charles B. McCabe
Administrative Assistant, New York

Carl W. Blumay
Director of Public Relations

Jack C. Searles
Director of Financial Research

Principal Subsidiaries and Divisions

OIL AND GAS DIVISION
Division Headquarters
5000 Stockdale Highway, Bakersfield, California

Regional Offices
Denver, Colorado; Houston, Texas;
Lafayette, Louisiana

Occidental of Libya, Inc. (OXYLIBYA)
P.O. Box 2134, Tripoli, Libya

CRUDE OIL MARKETING DIVISION
The Permian Corporation
1509 West Wall Street, Midland, Texas
4671 Southwest Freeway, Houston, Texas

FOREIGN MARKETING
113 bis Ave de Neuilly, Neuilly-Sur-Seine, France

COAL DIVISION
Island Creek Coal Company
1501 Euclid Avenue, Cleveland, Ohio

SULPHUR DIVISION
Jefferson Lake Sulphur Company
1408 Whitney Building, New Orleans, Louisiana

Jefferson Lake Petrochemicals of Canada Ltd.
1000 Calgary House
550 Sixth Avenue S.W.
Calgary, Alberta, Canada

OCCIDENTAL CHEMICAL CORPORATION (OXYCHEM)
4671 Southwest Freeway, Houston, Texas

Suwannee River Phosphate Division
P.O. Box 300, White Springs, Florida

Jacksonville Bulk Terminals, Inc.
P.O. Box 3905, Jacksonville, Florida

Western Division
P.O. Box 198, Lathrop, California

Eastern Division
P.O. Box 1185, Houston, Texas

Southwest Region
P.O. Box 5337, Houston, Texas

Midwest Region
P.O. Box 465, Sioux Falls, South Dakota

Northeast Region
P.O. Box 636, Springfield, Ohio

Southeast Region
1301 Wigmore Street, Jacksonville, Florida

International Ore & Fertilizer Corporation
(INTERORE)
380 Madison Avenue, New York, New York

REGIONAL OFFICES:
London, Paris, Dusseldorf, Madrid, Bombay, Secunderabad, Madras, Milan, Istanbul, Johannesburg, New Delhi, Calcutta, Karachi, Sydney, Singapore, Hong Kong, Tokyo, Seoul, Taipei, Manila, Honolulu, Sao Paulo, Montevideo, Santiago, Caracas, Managua, San Jose, Punta Arenas, Mexico City, Vancouver.

OCCIDENTAL MINERALS CORPORATION
6073 West 44th Avenue
Wheatridge, Colorado

OXYTROL DIVISION
895 Mitten Road, Burlingame, California

GARRETT RESEARCH AND DEVELOPMENT COMPANY, INC.
1855 Carrion Road, La Verne, California

Registrars

BANK OF AMERICA
National Trust & Savings Association
Los Angeles, California

FIRST NATIONAL CITY BANK
New York, New York

MONTREAL TRUST COMPANY
(Common Stock Only)
Toronto, Ontario, Canada

Transfer Agents

SECURITY FIRST NATIONAL BANK
Los Angeles, California

THE CHASE MANHATTAN BANK
National Association
New York, New York

CANADA PERMANENT TRUST COMPANY
(Common Stock Only)
Toronto, Ontario, Canada

Auditors

ARTHUR ANDERSEN & CO.
Los Angeles, California

Securities Listed

NEW YORK STOCK EXCHANGE
PACIFIC COAST STOCK EXCHANGE
TORONTO STOCK EXCHANGE

Occidental Petroleum Corporation's common stock is listed on the New York, Pacific Coast and Toronto stock exchanges. Occidental's $4 convertible preferred stock is listed on the New York Stock Exchange only.

Executive Offices

THE KIRKEBY CENTER
10889 Wilshire Boulevard
Los Angeles, California 90024

Occidental Petroleum Corporation, 10889 Wilshire Blvd., Los Angeles, California 90024